THE PARALYSIS OF TRADE

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an examination of the defects
of our industrial structure

by

PERCY G. DONALD

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*The commonest error
in politics is sticking to
the carcase of
dead policies*

LORD SALISBURY

London

George Allen and Unwin Ltd

FIRST PUBLISHED IN 1939

PRINTED IN GREAT BRITAIN BY
UNWIN BROTHERS LTD., WOKING

PREFACE

WRITERS on present-day political and trading problems seem to fall into three classes:

(*a*) Economists who lack commercial experience.
(*b*) Business men who lack a knowledge of Economics.
(*c*) Protagonists of some panacea or other that promises to bring the "millennium" in return for its adoption.

All these writers accept as foundations for their arguments certain facts of our present system of economy and finance, without any apparent realization that these very foundations may themselves be at the root of all the trouble.

Few writers attempt to trace the effect of their suggestions on the many departments into which the whole economic body of the world we live in is divided.

To-day we have on the one hand a "capitalist democracy," facing the challenge of a new-born "democratic autocracy," questioning its suitability to modern conditions. This challenge is delivered in ways that reveal a planned policy directing every field of domestic and foreign affairs. This new type of "democratic autocracy," the successor to *Laissez-faire* and procrastination, has developed a rapidity of action in both home and foreign spheres that may yet be the deciding factor in the future of the world.

It may be that these old democracies of ours can yet adjust themselves and remedy their inherent defects, while retaining their democratic principles.

They are like an old-fashioned business, faced with a new virile competitor. The newcomer is unhindered by

hide-bound principle and tradition such as obstructs the older rival. It has studied the weaknesses of the older concern and starts well ahead of it.

It is no good the directors of the older business shaking their heads in disapproval of the newcomer's methods, remaining aloof and cold. That will not harm the new concern, far from it; it will keep the older concern inactive and ensure a freer field for rivalry.

Only complete reorganization can save the older firm; it must examine the technique of its young competitor and improve on it.

Capitalism and the old democracies must face the issue in the same way. Patchwork will help very little. We must make a careful study of the good results that may have been achieved by these modern "democratic autocracies." We must adjust our own principles to "go one better." The magnification of certain bad aspects of these new regimes by a politically biased Press will lead us nowhere. Reject the bad; copy the good with improvements of our own. This must be our watchword.

"Democratic autocracies" have recognized and acted on the principle that to-day home and foreign politics are really a huge business organization, concerned in exchanging goods and services to maintain and improve the standard of living of different peoples. It is from this business standpoint that I have attempted to deal with the problems.

I am conscious that it would have been possible to write a whole book about each chapter. But to have done this would have been to defeat the whole purpose of my work—which is to interest the elusive man-in-the-street in the grave issues we have all got to face, sooner or later.

In trying to write in a way that will be understood by the ordinary man or woman, I have had to translate a

great deal of financial and economic jargon into everyday English.

If my readers find the subject interesting, they will find a wealth of books mentioned in the Bibliography at the end of this volume, which will help them to go deeper into the subject and to form conclusions of their own.

I have to thank those friends who have read my drafts and helped me to eliminate, as far as possible, such "jargon" as I fell into notwithstanding my endeavours to avoid it. It is unfortunate that our present educational attitude to economics is such that it is necessary to avoid the terminology of the science if other people are to understand one.

I have also to express my appreciation to the many writers on the same subject, noted in the Bibliography, whose views I have had so much pleasure in reading.

What I write is based on extensive travel and my experience as Council Member of the London Chamber of Commerce, Chairman of its Import and Export Merchants Section, and of its Iron, Steel, and Metal Merchants Section; as British Representative on the International Chamber of Commerce Committee on Trade Expansion and on the International Maritime Committee, and as Chairman of the Distributors of Builders' Supplies Joint Committee. I also draw on my experience in the management of my own business. Naturally, however, these bodies take no responsibility for the views expressed, which are entirely my own.

PERCY G. DONALD

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CHAPTER I

THE COMING SLUMP

(i)

ALL is not well with British nor Empire Trade, finance and development.

Business is not booming. It is not even making steady progress. Except for the armament trades, which are not sound business, factories are not all noisy with production. The warehouses of the world do not resound with the tramp of men, shifting goods in and out. Ports are not crammed with shipping, loading and unloading the products of industry and agriculture.

The world's man-power is not all at work, contented and confident in present employment and in the hope of security and comfort for the future. Neither wages nor the returns of enterprise are what one would desire, nor are either on the upward grade.

Perhaps all this is an ideal, a far-away Utopia, and not the realistic description of a world and a Britain that could be.

Such a picture, however, is what the schoolmasters of the modern world, from Adam Smith to Jeremy Bentham and John Stuart Mill, all envisaged as the outcome of national economic and political policy.

When the abuses and mistakes of the Industrial Revolution had been overcome, when sanity was restored to the world of commerce, this is something like the paradise they and others after them hoped their children would live to see. It is the land "fit for heroes" of which our

statesmen have dreamt and with which they have filled the imagination of those who follow them.

The "Age of Plenty" was to follow the years of trial and error, of experiment and invention.

A hundred and fifty years ago. Even a century ago or fifty years. . . .

We are farther from that Utopia than ever, in fact, though not in possibility, maybe. Many of our accepted leaders seem to have given up hoping for it. Many of us have given up hoping, even, for the return of pre-war prosperity. The chronic stagnation of the 1930's has grown on us, so that nowadays business men and politicians tend to take it for granted.

All is not well with world trade. We, in Britain, cannot look forward with confidence to a prosperous and stable future. Perhaps we are too gloomy in saying this. Let me, as a business man of some experience, remind you of a few facts:

The recovery, after 1931, has come to a stop and depression is looming ahead once more. If it were not for rearmament no one knows where we or other nations would be. A slump is on the horizon. The "trade cycle," as it is called (damnable fatalism!), has come round again, and world trade faces another relapse. When the real collapse will come none of us can accurately foretell, but its touch is already to be felt by men who have access to the day-to-day pointers of world economy.

Reports reach us daily of decline in one branch of industry after another. Blast furnaces close down; motor-car output is badly down; building—or that part that is truly productive and not connected with the armaments industry—slows down ominously.

The Stock Exchange records half the transactions to-day that were undertaken a year ago and those few are

at slump prices. Holders of stock face capital losses and are uncertain whether to hang on and hope, or to sell out, lest worse befall. But if they do, this only passes on the loss to others. The situation remains.

The price of raw materials is unstable. Manufacturers and merchants who have bought quantities, find the value shrunk and their manufactured production, at an economic price, threatened.

Commodity prices fell during autumn and spring 1937–8 in an alarming manner. Rises since affect armament commodities only.

	Copper	Tin	Rubber	Cocoa
Peak point, 1937 ..	77	306	13·5	53·0
Early November 1937	42	201	7·5	27·0
November 1938 ..	46	213	8·3	23·0

At the same time, municipal taxes, rents and other charges that are "fixed," remain, in no way varying with the decline of business. They tend, on the contrary, to rise. Yet even if they stayed stationary, they must, in present conditions, become an increasing burden on the diminishing output the world is able to show.

A smaller output with the same "fixed" overhead costs, means a dearer article, smaller sales, and lands one in a vicious circle.

From the view-point of world trade, the year 1937 was the crucial year when we turned over from a cyclical boom to the beginning of a new depression.

The first signs of this depression were discernible in the autumn. Production fell off badly in the U.S.A., but was masked to a certain extent by increased production

in other countries. On the distribution side, business activity started declining by the end of 1937.

Up to the end of the spring, 1937, world prices were rising as is usual in a boom period. In April they steadied and then began to fall sharply. Production had caught up with demand. The Bulletin of the League of Nations, January 1938, in its Wholesale Price Index (1929 = 100), indicates a steady recession in values.

The drop in Stock Exchange share prices was just as great in products "controlled" in output, like tin, copper, and rubber, as in others. The combines and trusts concerned were not able to prevent their prices being forced up during the rise of the trade cycle (or did not wish to do so) and were equally unable to prevent their fall.

A recovery from lowest took place, late in 1938, in armament commodities only, consequent on the political situation.

In America, the depression hit production in 1937. The *Annalist* gives the following figures for World Industrial Production:

1928 = 100	World (excluding Russia)	
	World with U.S.A.	World without U.S.A.
March 1936	94·1	103·1
October 1936	104·3	110·0
May 1937	112·2	117·5
August 1937	111·3	116·7
September 1937	109·1	117·6
October 1937	105·7	118·3
March 1938	92·3	113·7
April 1938	90·3	111·3
May 1938	89·6	110·8
June 1938	90·2	111·2

This shows that world production has been declining since May 1937, but that this is due wholly to U.S.A. Elsewhere, up to this period there has, in fact, been an increase. These League of Nations figures for Industrial Production during the same period are comparable:

	Peak of 1936	Peak of 1937	November 1937	Jan./Mar. 1938	April/June 1938
U.S.A.	101·7	99·2	74·8	66·7	64·4
Great Britain ..	123·2	127·3	127·3	123·3	113·7

The depression in production began to reach the rest of the world in 1938. The usual spring increase in business was either small or failed to materialize altogether. The decline in U.S.A. proceeded still further.

Between consumable goods and capital goods (machinery, building, steel, etc.) the drop was most heavy in the latter section—54 per cent in six months.

Production in the world, excluding U.S.A., dropped a point, according to the *Annalist.* In Canada the depression has already been felt violently. The drop from December 1937 to February 1938 is from 89·1 to 77·4. Belgium, too, has been badly hit.

Britain is still only on the brink, with all the signs of coming storm. Armament may check the symptoms but not the disease.

Grave falls are to be seen in industries such as cotton, building, motor-cars, and steel.

Building for housing or productive work is the basis of our economic standard of life. It is the corner-stone of industry and commerce. It touches every branch of trade. When building figures move upwards, every other

trade is stimulated. To-day its gradual decline is jeopardizing a dozen arteries of commerce.

There is no doubt at all that in spite of an enormous armaments expenditure, a new slump is on the way. Suppose we look at it from a purely British attitude. Index of business activity shows:

1935 = 100	1933	1934	1935	1936	1937	1938
January	83½	96	97	102	107½	111½
February	85½	95	97	102½	109½	110
March	84½	95	96	102½	111	107
April	86	95	97	105	109½	104
May	85½	94	99	104½	112½	103
June	87½	95	100	106	113	104
July	89	94½	99½	107	111½	102
August	90½	96½	99½	108½	113½	102
September	92½	96½	101½	108½	113½	104
October	91	96	101	108	113	104
November	92½	96	102	108	112½	—
December	93½	97	104½	109½	111	—
Monthly average	89	96	100	106	112	—

Population has not decreased in recent years, although our exports are down. It has gone up. In 1882, the population of the world was computated to be around 1,434,804,000. In 1933 it had reached 1,606,542,000 (*Statesman's Year Book*). In 1937, according to *Whitaker*, it was 1,997,000,000. It has probably passed the two-billion mark by now. That is, an increase of a third in fifty years, an average of around 3 per cent per annum of the 1882 figure. An average increase in world population of rather more than the total population of the British Isles every year.

During the same period, Britain's exports first rose from

1882 .. £306,660,714	increase in 25 years: £211,306,453[1]	
1907 .. £517,977,167		

and in later years decreased:

1913 .. £634,830,326	decrease in 25 years: £104,830,326.	
1938 .. £530,000,000[2]		

World trade and home trade are approaching a catastrophic situation, yet the link between the two evokes even more alarm.

As the uncertainty of world conditions increases, Britain's dependence on the rest of the world is increasing.

The present situation in which Great Britain finds herself is not a pleasant one to contemplate for the business man who is willing to look facts in the face.

Consider the nation's balance-sheet of goods bought and sold:

(*In millions of £'s*)

	1913	1931	1936	1937	1938[2]
We bought ..	769	861	847	1,029	924
We sold (including re-exports) ..	635	455	501	596	530
We bought more than we sold ..	134	406	346	433	394

What does this mean to us in Britain? We have taken Britain as an example, although a similar position applies to practically every country in the world to-day which is predominantly manufacturing.

It means that we are dependent for our very existence

[1] Based on returns to June 1938 (*Whitaker*, 1918, p. 450, and *Board of Trade Journal* reports).

[2] Averaged on January to October 1938 figures.

on goods from abroad—to the tune of a thousand millions a year. Goods from foreign countries, and this in the present state of international affairs.

We are actually buying half as much again as we were in 1913.

At the same time, we are actually selling less. Our visible Trading Deficit has multiplied three times!

WE ARE SELLING LESS GOODS THAN WE DID BEFORE THE WAR AND BUYING HALF AS MUCH AGAIN.

Writing in 1932, Lord Melchett, in *Modern Money*, said:

> "Now the adverse balance of trade of the United Kingdom, in the year 1936, which was quite exceptional, and can be safely taken as a most extreme case, was estimated as £109 millions."

How, in fact, do we meet the deficit of the nation's balance-sheet? How do we succeed in keeping solvent? Are we relying on money lent by us, that may never be repaid? On the commonly accepted theory that goods and services *must balance, are we*, in fact, sound?

Invisible exports? That is the answer of our orthodox economists and the popular Press. What are these invisible exports? They are made up broadly of:

(1) Interest payments for capital loaned abroad.
(2) Payment for shipping services and insurance rendered by British ships to foreigners.
(3) The expenditure of foreign visitors to Britain, and miscellaneous sums.

The Board of Trade estimated the yield of invisible exports in the following way:

	1936	1937
	£	£
Shipping income	85,000,000	130,000,000
Overseas investment	205,000,000	220,000,000
Commissions, etc.	30,000,000	35,000,000
Other sources	10,000,000	10,000,000
	£330,000,000	£395,000,000

But these are only estimates, the products in very large part of Civil Service optimistic guess-work.

Their accuracy has more than once been called into account. Perhaps the Macmillan Committee was the most authoritative body of its kind ever set up in this country. In their report in 1931, they remarked: "It is evident that there is so much guess-work in them as to render them liable to an unduly wide margin of inevitable error."

Both the Liverpool Steamship Association and the Chamber of Shipping have questioned the sum estimated for shipping above. The Chamber of Shipping suggested that the Board's figures were, in fact, £10,000,000 too high. Recent debates in the House of Commons have cast still graver doubts on their accuracy.

As regards capital invested abroad, these are very uncertain sums indeed. Interest has in many cases already been withheld. Debts have been dishonoured. In the present state of world politics more debts are likely to be dishonoured in the near future and the fate of the Lena Goldfield, Mexican Oilfields, etc., may well become the fate of a substantial proportion of the capital on which that "estimated" £220 millions of interest is calculated.

The man-in-the-street often does not realize that £100

lent abroad and not repaid in goods or cash, means making a gift of the products of our labours to that amount.

The same thing applies to the bad debts contracted by commercial trading companies. It is the community's loss through the individual. Goods have left the country and nothing has come back in return.

Great Britain is in the shoes of a man who is living above his income. We all know what Mr. Micawber had to say about the matter in *David Copperfield*. "He solemnly conjured me," says David, "to observe that if a man had twenty pounds a year for his income, and spent nineteen pounds, nineteen shillings and six pence, he would be happy, but if he spent twenty pounds one, he would be miserable." After which he borrowed a shilling and gave in return a written order on Mrs. Micawber for the amount—worth about as much as some other bits of financial paper held by some gentlemen in this country in exchange for something tangible.

At their meeting in Lincoln, on September 23, 1931, the Associated Chambers of Commerce passed the following resolution after careful consideration:

> "The association is of the opinion that unless steps are taken in the near future to balance the national overseas account it will be impossible to maintain the value of Sterling and the financial difficulties we have recently experienced must recur."

Of course, that was said in the midst of the last crisis, at the botton of the slump of the last "trade cycle." The warning is rather typical of that very British characteristic of kicking only when we really have our backs to the wall. As soon as we get clear once more, we are inclined to forget our recent troubles and their lessons and to grow complacent until the next slump jolts us into wakefulness again.

Someone starts a little manipulating on the Stock Exchange. Prices take a bound upwards. Once again we promptly slap each other on the back and all is well with the world. Our natural complacency re-asserts itself.

Meanwhile we talk of the British "genius for muddling through" and smile happily. Those who issue warnings are regarded as Jeremiahs.

Just now we are approaching another slump. This book is written to urge us to get over our complacency and face the issues before it is too late. As distinguished an authority as the late Sir Basil P. Blackett, a Director of the Bank of England, wrote in September 1932:

> "Our political and economic machinery is breaking down. . . . Side by side with this fear and despair there is a very British complacency—that anyhow it is better to carry on and not to think too much about our troubles. If despair is cowardly, complacency is deadly" (*Planned Money*).

In 1931, at a full meeting of the Association of British Chambers of Commerce, "steps" were called for in the "near future" to balance our overseas account.

In 1937 the writer felt it his duty to warn those present at the spring meeting of the danger latent in our trade returns. With an apparent Home Trade "boom," his warning was received with characteristic complacency.

In the autumn of 1938 a special two-day meeting was called in view of the continued bad overseas figures combined with a Home Trade slump—a combination responsible for administering a jolt.

The meeting, whilst being historical, could hardly be called constructive, and ended with the usual appointment of a Committee, which will, no doubt, report in due course.

(ii)

Two things are clear. The first is that the Government of the day, no matter what its political colour, cannot function soundly unless there is an income which balances expenditure. They discovered that in 1931, and they will relearn that basic truth in 1938–9, following a year of false optimism and assumptions.

By this we mean, in particular, the optimistic estimates of trade-yield, based on boom trading years. The Board of Trade estimated the yield from invisible exports at £395 millions for 1937–8, anticipating thus increases in yield all round. The slump that has already set in, the collapse and "see-sawing" in the prices of raw materials, and many essential commodities throughout the world, will play havoc with 1938–9 estimates and show them to be unjustified.

The second fact that is clear, is that we have turned another "trade cycle."

What is a typical trade cycle?

Take a trade, a commodity. Suggest a shortage, due say, to an unplanned armaments programme. Merchants, manufacturers, everyone runs to cover and buys up stocks as large as possible. They are convinced prices will rise and that they must get in reserves at as low a price as possible, before this rise takes place.

Demand shoots up to a height quite inconsistent with the needs of consumption. Speculators take a hand and everyone is calling for supplies.

The makers find demand so heavy that they advance prices.

Immediately, all those who have been buying see their suspicions of shortage confirmed. Their acumen has been proved right. Prices are going up. They were wise to

protect themselves by getting in large reserves. They proceed to buy still more to hold against further increases in price. Demand grows even heavier.

High prices attract investors and new factories spring up to turn out the commodity in question, to meet the demand and get some share in the large return it offers.

Revenue to the Treasury booms. The Stock Exchange adds billions to the so-called wealth of the community. Everything is fine. Government, Commerce, and the Public lose a true sense of proportion. They estimate future yields on the turnover of this boom period.

Gradually supply begins to overtake the demand until saturation-point is reached. Prices stabilize and begin to slip down, as supply equals and passes demand. Speculators rush their stocks on the market; buyers slowly consume their reserves piled up, in great part, at an uneconomic price. Demand disappears and a rush of sellers drives the price down to rock-bottom. Slump.

Compare this with the day-to-day facts:

1937—Copper up. Lead up. Pepper up. Iron and steel up. Building boom. Rubber up. All imported material up. Stock Exchange up. Inflated profits and easy spending.

1938—Copper down. Lead badly down. Pepper corner deflated. Building boom spent and counting its losses. Rubber in the doldrums. Imported raw material down. Stock Exchange figures down enough to pay the War Debt.

Only two things are not down. Iron and steel is one; supported by the Government, which prevents many firms getting them at a price allowing them to compete for export trade. And the foodstuffs we import for our very existence is the other.

Manufacturers and distributors proceed to fight each other by cut-throat methods, to keep the smaller volume of trade in their own personal hands. Which means, not

that more is sold and distributed, but that the same amount circulates with little or no return for anyone.

What must be the outcome of this state of affairs? Our economy will have to adapt itself to meet these conditions and there will be a cry to do so along the well-established lines of past depressions.

Works will go on short time or even close down for a while. Their overhead costs will remain, of course, increasing the cost and, therefore, the prices of the fewer goods turned out.

Employees and workmen will be on short-time or (at the community's expense) on the "dole." In either case, they will have less to spend and this will put even more of them out of work. The Banks' ever-watchful eyes will see their clients' returns dropping. They will cut down their clients' credits and all business will be curtailed. Clients, in turn, must draw in their horns, allow less credit, restrict their business. There will be a general retreat and some of the less firmly established will be squeezed out of business.

Then the Budget will fall below expectations. Increased taxation will only make matters worse and produce a falling yield. Once more, as in 1931, we shall face demands for retrenchment, which again, if accepted, will only worsen the situation.

The cry will go up for wages to be slashed, public works to be halted. The belt round everyone's stomach will be tightened. What employment continues will be based on armaments, piling ever higher as unemployment and bad trade turn the accepted leaders of the world more and more in the direction of war.

Will there be the slightest chance of our making good from exports? Under existing conditions, none at all!

Furthermore, our customers abroad have made matters

worse by following the same instincts as some of our people at home; they have been overstocking on the assumption that a shortage was coming.

At the same time, reduced world prices has led to retrenchment in some of our best markets. In the Colonies, for example, the Public Works appropriations have been cut down very considerably, following the decline in prices of raw materials they export.

(iii)

A vicious circle. And we are in this vicious circle just because we will not sit down and study the problem seriously and with open minds. Because we insist on tinkering. We plaster up the cracks in the wall when the foundations are sinking.

It is not much use looking to our bankers for guidance in this connection. To prove this, go to the public library and read through the speeches of any bank chairman during the past twenty years. How much have they known? How often have they been right?

Better still, read through the 1938 speeches. Lord Wardington, the Chairman, told the shareholders of Lloyds Bank:

> "When talk of a recession in trade is somewhat loud and insistent, I see no reason in the fundamentals of our commercial position to apprehend any serious set-back" (*The Times*, January 29, 1938).

Mr. Edward Fisher, Chairman of Barclays Bank, told his shareholders:

> "That trade is good in the United Kingdom at the moment, no one will deny . . . as the stage is set to-day—and it is a different setting from that of 1929—there is little justification for undue concern" (*The Times*, January 21, 1938).

The Chairman of the National Provincial Bank, Mr. Colin F. Campbell, remarked:

"Before we allow caution to outweigh confidence and degenerate into pessimism, we should be sure that existing circumstances warrant this.

"The main sources of our weakness in the great depression of 1930–3 are now sufficiently well recognized to enable us to say that not one of them is in active operation to-day.

". . . our present position . . . I believe in its fundamental strength and soundness" (*The Times*, January 28, 1938).

The Rt. Hon. Reginald McKenna's address, as Chairman, to the shareholders of the Midland Bank, was equally hopeful and confident.

"There is nothing in our present condition to indicate that the change between 1925–31 and 1931–7 has been other than for the better or that it is fraught with unknown perils in the future. (Applause) . . .

"When we look to the future I see no grounds for pessimism" (*The Times*, January 27, 1938).

The Westminster Bank's Chairman, the Hon. Rupert E. Beckett, said the same thing:

"To take alarm at this juncture is harmful and unwarranted" (*The Times*, January 27, 1938).

The banks were unanimous, almost too much so!

Our statesmen and publicists are in a similar school. Mr. Chamberlain himself remarked not so long ago:

"The talk of an incoming slump is not only exaggerated but dangerous" (Rept., *Sunday Times*, December 26, 1937).

Mr. Oliver Stanley affirms:

"All my information goes to show that trade prospects in general are good and that the country can feel with confidence that progress made in 1937 will be maintained in the coming year" (*Sunday Times*, December 26, 1937).

Perhaps the most fantastic arose from some sections of the daily Press:

Headlines such as

"BOOMING EXPORT TRADE"
"ORDER EMERGING FROM CHAOS"
"TRADE BOOMING"
"CONTINUED PROSPERITY"

in face of figures which led to an entirely different conclusion, could but create the view that such papers were more concerned with booking advertising contracts than in placing matters before the public, through experts, in their true perspective.

Such methods, and the warped sensationalism of certain sections of the Press during the Spanish, Austrian and Czechoslovakian crises, did much to embarrass our politicians and inflame opinion abroad.

Feeding complacency or inflaming passions in the interests of circulation and advertisements, may yet be —as it has already been in the case of Divorce Reports and Official Secrets—used as a reason for greater control of the Press. Thus the abuses of the few will control the freedom of many.

We can hardly turn to the Bank of England for help, when Mr. Montagu Norman, Governor of the Bank for eighteen years—longer than any of his predecessors—himself admits at a Bankers' dinner:

> "The difficulties are so vast, the forces are so unlimited, precedents are so lacking, that I approach the whole subject in ignorance and humility. It is too great for me—I will admit that for the moment the way, to me, is not clear."

Lord Melchett, a Director of two financial trusts and of Barclays Bank, writes in *Modern Money* about this kind of financial chaos and complacency:

"This makes one wonder a good deal about the proverbial wisdom of our financial governors."

Later he says:

"There is no economist, no banker, no financier who can give clear answers to the questions put by a distressed world."

Our politicians are of all, perhaps, the most useless in anything smacking of finance or economics. Over a number of years their speeches have contradicted each other, sometimes with only a few days between views diametrically opposed, coming from the same person.

In May 1938, Mr. Oliver Stanley changed his view from the one quoted as held by him in December 1937, to this:

"In the first four months of this year not only had there been a slackening in the increase of production that had been going on before, but in some trades an actual decline" (May 25, 1938).

Where they do not contradict themselves, Members of Parliament generally show no evidence of real knowledge or even awareness of economics at all. Some three-quarters of the House of Commons could not, the writer is convinced, stand up to five minutes' cross-examination on how our present system works, let alone how to improve on its working.

The late Sir Geo. Hunter, well-known shipbuilder, writing a foreword to *The Romance of Trade*, by Kirkaldy, says:

". . . It is evident from their speeches, writing, and actions that politicians and Labour leaders, employers and members of Trade Unions, fail to understand the economic problems and laws on which our prosperity and happiness largely depend; or regard them with a prejudiced and biased mind; or simply refuse to allow economic truths to govern or guide their actions."

These are the men who vote on what we shall do. Do we remember the arguments of some of the more learned gentlemen in 1925, when we returned to the Gold Standard? Do we remember what some of them said about the need for keeping to it in 1931? Or what the same gentlemen said a few weeks later when it was decided to scrap it?

Yet these same politicians are taken by the gullible as prophets of the first degree and their words are sucked in like the prognostications of fashionable fortune-tellers. All must, of course, have the luck to be right sometimes.

(iv)

Is a cure possible?

Can trade cycles be levelled out and the fatal alternation of boom and slump ended? Can our export position be made to balance with imports and, more even than that, can world trade be expanded as a whole?

The writer has no doubt that the problem is not only possible of solution, but can be done without a major change in our modern methods of production and distribution. But to reach this aim, we need an examination that is not biased by vested interests. "We must recast our theories," Lord Melchett has said. And to do this, we must have no prior loyalties. As Nansen pointed out: "The old beaten tracks do not lead us to our goal."

In their report, the Macmillan Committee said:

> "If Great Britain were a closed system, having no trading relations with the outside world, both diagnosis and remedy would be less difficult."

That is, perhaps, the first principle to get clear. The second is the definition of Arthur Kitson, pioneer of

reform and a business man himself, as well as an economist. He said:

> "Foreign trade is barter, but home trade is credit."

It is along these lines that we believe an orderly cure for the present ills should be sought. These lines will be followed at some length in succeeding chapters of this book. In the next few chapters, however, we shall deal briefly with the present situation and how it arose.

To arrive at an understanding of the question, and thence at a solution, we shall need to get rid of many of our most cherished theories and to recognize that many of the precepts we have, in the past, recognized for laws as eternal as those of the Medes and Persians once were, are things of the past. They have to-day about as much substance as the learned arguments of the ancient Greeks (who were no fools, by the way), based on a flat world, round which sun and moon revolved, or the detailed laws of seventeenth-century statesmen, under which witches were tried and burnt and, under whose direction the foundation of our present-day economic system was founded.

Putting aside our prejudices in favour of this or that theory or method, and determined to avoid "tinkering," we come to the following problems:

(*a*) How can we avoid alternate scarcity and plenty?
(*b*) How can we, avoiding primitive barter, exchange with foreign countries on an equal basis?
(*c*) How can we co-operate with the rest of the world in promoting trade expansion, beneficial to us all?
(*d*) How can we use modern mass-production technique arising from labour-saving machinery to secure increased and ordered leisure for all?

If we can solve these problems, we shall, at the same time, solve a number of other questions that are menacing us nowadays, problems of unemployment, debt, armaments, and the threat to peace.

CHAPTER II

HOW WE GOT HERE

(i)

THE complicated technique of manufacture, sale, credit, and all the thousand and one other matters that make up our modern economic system are often regarded as something finite, planned and "created," all at once, according to some thought-out scheme. Our institutions and methods, national and international, are accepted as final economic "laws" in discussions; they are thought of as fixed and permanent rather than things that change, have changed, and will continue to change.

Most of our institutions and much of our technique were, in fact, created to meet current needs and abuses. They arose when modern conditions were not even dreamt of. As those needs and abuses passed from the stage of history, the institutions and methods remained, sometimes adapted a little to fulfil other functions, efficiently or not so efficiently as the case might be. Sometimes hardly adapted at all and often fulfilling no useful function whatever.

Born of a moment's need they become part of our "system." And that is why this "system" is a patch-work of one-time emergency measures and cumbersome, antiquated institutions.

Let us look at the history of the modern world and see how it has developed.

The first technique of trade is known as primitive barter. Barter is the *exchange of goods with goods,* and must have been invented by Adam. Through the ages

it has persisted among remote tribes and between children.

Small boys "swop" marbles for a pen-knife or an air-pistol for a coveted photograph of a boxer or footballer. That is barter. It is the earliest form of trade. But its many defects, as a technique of commerce, are at once obvious.

In some boys' schools, marbles and cigarette pictures often act as currency. Ten marbles equal an almost-new pen-knife; fifty a cricket-bat; twenty a cricket-ball.

And marbles keep. You can exchange your bat for fifty marbles and then "swop" for a variety of things from a variety of different acquaintances. The clumsiness of direct barter (you want a cricket-bat but have only a boxer's photograph that I don't want) is overcome by introducing *money*. For in schools where marbles or cigarette cards are universally exchangeable, they become, in fact, *money*.

Money is introduced to avoid barter. Its shape and form do not matter. Cowrie shells have been "money." They still are in some parts of the Pacific. Nails have been used by primitive tribes, when first in contact with civilization. Tea, tobacco, tin, iron, leather, salt, whales' teeth, coco-nuts, lead, soap—almost anything will do for money and has done, somewhere, sometimes.

To begin with, there is the difficulty of calculating the value of "equivalents." For small boys it may not be difficult to assess the ratio of marbles to a pen-knife, although the direct comparison of a cricket-bat with the photograph of a footballer may present difficulties. In trade the difficulties are insuperable.

How many pounds of apples would a farmer give in exchange for a pair of shoes? And what if the cobbler doesn't like apples, which is all the farmer has available?

Or perhaps they are a kind that will not keep, and the cobbler doesn't want to eat them all at once.

What is the ratio of a horse to a hair-cut?

It was to get round difficulties of this kind that money first grew up. It became a universal "equivalent"; that is, a standard gauge to which everything could be compared and so, with which anything could be exchanged. The farmer sells his apples for so many bars of lead and with one of these he "buys" his shoes. The cobbler can in turn exchange his bit of lead with the baker for bread.

In this way the clumsiness of direct barter was overcome. The trouble involved in exchanging one valuable article for a number of different and less valuable articles, belonging to different people, was avoided, and you could "spend" your property gradually. You did not have to take all the goods to which you had a claim, *at once.*

Money had therefore to act as a common medium for exchange, a common measure with which to compare the values of different goods, and finally, it had to express the value of these goods in the future.

To explain the last point more fully, we must remember that much early commerce was to do with shipping—export and import trade.

This implies contracts for forward delivery. A man buys so much corn, or so many hides, to be delivered at a certain date. But when he buys these goods, *in advance,* he does so in money. And he does not want that money to change in value before he gets the goods. He does not want to pay two pounds of silver for six hides to find, when the hides arrive, that money has fallen in value and he only gets four hides. Money has to be a constant standard, estimating the value of future obligations. Only on these conditions are contracts possible.

The Greeks had a great deal to do with the development and perfection of the use of money.

Gradually metals ousted other forms of money. Metal money can represent a great deal of money in a small space; metal is of the same value throughout, every piece the same, and can be divided easily. This is not true of skins, oxen and so on. And metal does not deteriorate rapidly.

Nearly every metal has been used as money. Iron was very popular in early days and Adam Smith speaks of iron nails being used as currency in parts of Scotland in his days.

But gradually mere metal—measured by weight—gave place to actual *coins*, stamped to show quality and value. And in this development the early Greek City States played a leading part.

They competed with each other and in this way there was ample opportunity for experiment. The improvement in Greek coinage was a result and an aid to the growth of Greek trade.

The Greeks introduced coinage to Rome and the ancient world learnt a great deal about the nature of money.

"All commodities exchanged must be able to be compared in some way," said Aristotle over 2,000 years ago in his *Nichomachean Ethics*. "Money serves as a guarantee of exchange in the future; supposing we need nothing at the moment, it ensures that exchange shall be possible when a need arises. . . ."

Compare this statement with the definition suggested by P. J. M. Larranaga in *Gold, Glut and Government*, 1932:

"The simplest, most fundamental, and truest definition of money is that money constitutes an instrument for obviating

barter and for deferring the actual delivery of goods and services to the recipient thereof."

Money and currency is a universal equivalent, accepted by all to avoid the clumsiness of primitive barter and to make the exchange of goods easier. Its introduction was one of the first great advances of civilization. Without it, as without speech, writing and other fundamental discoveries, progress would have been impossible. Towns, as we know them, could not have existed. Commercial intercourse between peoples would have been barred. Money made possible the technical progress of production; and this progress, in itself, made the need for money greater and its use wider.

Anything can be used as money or currency, as a measure of value, and all things orient themselves to it. Its use has been the civilizing factor of the world, but its abuse may yet lead to world destruction.

But in the ancient world, money was confined to use in really important transactions between citizens of one State—what we call "internal trade"—and it was only used with foreign nations—"external trade"—by special agreement.

Close neighbours at first grew to accept "money." This probably began by the exchange of "gifts." In Australia natives exchange "gifts" of hard stone (for hatchets) for ochre (for painting the body). Later the idea of barter develops until some article is looked on as a unit of value and later still until some article acquires recognition as money.

Neighbouring States would accept each other's coinage, *if they were confident that it would be accepted again by the State that issued it, in exchange for goods.*

Coins for foreign trade were accepted—in other words, as a *claim* on future goods and services from the issuers.

The Greeks and Romans brought money to an advanced and complicated technique in the societies they created. They were responsible too for the introduction of money —or, at least, coins—into other parts of the world—Britain, for example.

Within communities barter remained for a long while more the rule than the exception. A number of different commodities served at the same time as partial currency —lead, tin, hides, and so on, side by side with coins.

A man with a heavy fruit crop would exchange it for hides, that could be stored and exchanged as he needed them for other goods.

The growth of civilization from agricultural settlements, from the early community, where a man sowed and reaped and tended his few goats and hens, producing his entire needs, was along the lines of specialization. He began to specialize.

He found it paid to stick to his plough and sickle alone and exchange his corn and eggs with the village blacksmith for ploughshares and horse-shoes, and to give the local carpenter a share in his produce, in return for building the cart in which he took his goods to market. In that way he not only got a better cart and better iron-work, but more time for agricultural production.

But, often enough, he had not the variety of goods to tempt the craftsman with direct exchange. But all would accept money and he could sell his goods for money, too.

Smiths, carpenters, carters, horse-dealers arose, who exchanged their services and goods for currency and bought with it the other things they needed themselves. All were, in the long run, dependent on the agricultural worker, the producer of foodstuffs.

Modern trade began. Men started to produce not

entirely for their own use, but to exchange. And the corner-stone of this "commodity production" (as it is called) is money. It was the beginning of the modern system.

(ii)

As we have shown, currency made it possible to store value, to keep value until it was needed. And it made it possible to represent that value—hundreds of acres of land, whole crops of wheat, herds of cattle—by a small bulk of accepted currency.

This cut both ways. It is more convenient to carry the value of a field in your pocket and to find a buyer for that, but it is not so easy to steal a field or rob a man of a house (although in these days the theft of the title to such things is sometimes achieved). A small bundle of currency, on the other hand, representing far more wealth, can easily be stolen.

Footpads and highwaymen were rampant in the early days of civilization and the merchant had to find a safe place to keep his money.

From among other competing currencies, gold, silver, and, to a lesser degree, copper, had been selected almost universally as general currency. This had some influence on the future development of finance.

Precious metal depended for its value on weight, and goldsmiths, who were also money-changers, were people with suitable scales and with knowledge to distinguish pure metal from spurious and alloys.

Again, they had to have a safe on their premises, where the precious metals in which they worked could be kept.

What was more natural than that the early merchants

should go to the goldsmiths for the safe storage of their money? These goldsmiths became, in this way, the first bankers during the sixteenth century.

At the same time, many merchants still preferred to safeguard their wealth by changing it as soon as possible into gold or silver plate. Others, like Samuel Pepys, kept their wealth in a large iron box.

But gradually the goldsmiths won the confidence of the merchants and became more and more the usual care-takers of wealth. Their clients ceased to worry about the gold that lay in the vaults of reputable city firms. They rarely came to look at it. Almost never to take it all out.

On the contrary, even on market days, the goldsmiths found all that happened was that buyers and sellers gave one another little notes to the goldsmith, telling him to make over certain sums from one to the other. Or debtors and creditors came to his shop at about the same time and, as soon as one withdrew part of his money to pay his debts, his creditor paid it back over the counter again for safe-keeping.

The gold never really left the goldsmith's keeping. Buyers and sellers trusted him and soon grew to take his word, without seeing the actual metal, that he would make the necessary change in his strong-room from one owner to another. And they trusted his word that the money was actually there. The step to mere book-keeping was a short one. A few figures in the ledger deducted the sum from the debtor's account and passed it into a creditor's. The gold stayed in the strong-room.

Apart from the weekly demand for small change, all transactions became "bits of paper." Private banking practice had become largely "bits of paper" by the close of the seventeenth century in Britain.

By watching carefully, the goldsmith had been able to

learn certain facts about the habits of his customers and about the new job. The most important was that he never had to pay out more than 10 per cent of the money he had in actual cash. Or almost never. And even that soon came back again.

Why not lend some of the remaining 90 per cent at interest?

The idea was tempting and very soon it was acted upon.

This changed the whole aspect of the business. Minding other people's money became a new source of wealth to oneself. Until that time a small charge had been made for looking after deposits. Now bankers competed to pay clients to leave their money with them.

Modern banking had begun.

(iii)

That was the beginning of it all. Modern banking. Theoretically it began as a system of lending *your* money at interest.

It was a sort of tolerated "conversion"—that is, they converted your money, the money of their clients, to their own uses, lending it out at interest.

If a clerk in an office was caught lending his employer's money at interest, he would be gaoled. But in the banker it was tolerated from the first.

Later, it developed into lending not only clients' money, but even money that did not exist at all. This is the creation of credit, fictitious money, by figures in the columns of banks' books.

Naturally there were repercussions. A number of bank crashes and scandals occurred in the early years before banking practice became set.

Sometimes the borrowers could not repay the bankers.

Sometimes a rumour, a breath of suspicion, the hint of a failure, sent all a bank's customers hurrying together to get their money, to feel their gold. The depositors then lost the only real thing in the whole complex of transactions—their deposits.

The irony of the situation was (and still is) increased when the failure to pay depositors arises from competition caused by their own money being lent by the bank to finance competitors.

Between 1500 and 1600 the spirit of the British merchant venturer began to awake. Trade expanded. Merchant Venturing companies were formed and led to a real opening-up of foreign commerce and thence to the acquisition of colonies.

As trade and commerce increased in Britain, banks found it easier to find safe and profitable investments for money. At first they were very careful; Scottish banks were the first to lend at all freely. London banks in the beginning lent only on mortgages or capital sunk in business. Later they grew more daring.

In the eighteenth century, "bills" drawn on London at two and three months' time, largely replaced banknotes or currency in important business transactions.

Bankers became a very influential body of persons, despite the frequent scandals. Cobbett used to calculate the seats in Parliament that he knew had been bought by these new squires. He called them "country rag-merchants," as they had acquired their wealth by making "paper money." (*Rural Rides*, November 5 and 23, 1821.)

At about the same time a pamphlet of 1802, entitled *Utility of County Banks Considered*, remarked:

"The country is much indebted to gentlemen of large landed property for emerging from the indolence of their forefathers, and entering into the commercial concerns of a bank. They

have given a degree of respectability to those undertakings, at the same time that they have added to the confidence and security of the people."

The position of the banker, gradually "wrapped in respectability," became a very desirable one.

Walter Bagehot, himself a banker, wrote in his *Lombard Street*:

"The calling is hereditary; the credit of the bank descends from father to son; their inherited wealth soon brings inherited refinement. There has probably very rarely ever been so happy a position as that of a London private banker; and never perhaps a happier."

Still, for many years, despite the growth of banking, there was no central banking system. In the sixteenth century an Italian petitioned Queen Elizabeth to create one, but he failed to get a national bank established. In 1621, 1622, 1662 and 1666 similar proposals are known to have been made.

Spain explored South America and captured the gold of the Incas and the Aztecs. Bullion came in great shiploads to Europe. The fetish of the yellow metal began. To Spain is due, largely, the widely held view that gold and silver are in themselves wealth. And this, too, helped trade, except in Spain.

This Spanish surplus of precious metals was responsible for a new type of trade—the exchange of goods against gold and silver, by which they lived on the products of other countries instead of their own—wisely or otherwise.

"Now the fact is that the Spaniard, who gets his subsistence only from France, being compelled by unavoidable necessity to come here for wheat, cloths, stuffs, dye-stuffs, paper, books, even joinery and all handicraft products, goes to the end of the earth to seek Gold and Silver and Spices to pay us with . . ." (MONROE, *Early Economic Thought*).

Much of this new type of trade was between towns holding a special "charter," as it was called, or privilege to trade, from the feudal sovereigns who ruled Europe. In exchange, usually, for certain services, such as supplying ships for the navy, taxes, and so on, these towns received a "Charter of Rights," allowing them a measure of self-government. These towns made agreements with each other, exchanging goods and each other's currency to their mutual advantage.

Here it is amusing to note that the individual trading agreements, so much to the fore in recent years, are really a throw-back to the early years when the world lived in economic isolation. The days of "autarchy" in a real sense.

Foreign trade continued for many tens of years in the hands, for the most part, of foreign merchants, who brought their goods here and took back other goods in exchange. Even if one lot of goods was gold.

The real boom in British shipping, that made us master of the seas and gave substance to *Rule, Britannia,* arose from the Navigation Acts (beginning in 1650 under Cromwell) that made British ships and a 75 per cent British crew compulsory for all goods brought to this country. These Acts remained in force until 1826 and were then carried on by similar regulations until the 1840's, when all restrictions were repealed with the coming of Free Trade.

The last century saw the great growth in roads, railways, canals and ocean routes. It saw industry bound forward, foreign trade become a day-by-day matter and an end of the barriers between peoples. It began the Modern World in a complete sense, but its roots were in the preceding centuries.

Historians may yet conclude that the outstanding innovation of the period was the introduction throughout

Europe of Arabic numerals, the use of which was first taught in our universities in the sixteenth century. Modern accountancy, balanced books, all these things were impossible until the Roman numerals of the Middle Ages were superseded.

Few people realize the importance of this pen-and-paper revolution.

X X V	25
X I X	19
V I I	7
2 6 3 6	51

A problem worth pondering. . . .

(iv)

It was around 1665 that King Charles II of England felt particularly short of cash. An habitual thing for kings in those days, when the Commons were still building up the conception of the constitutional monarchy and the main fight was still along the lines of controlling the king by keeping hold of the nation's purse-strings.

Charles hit on the idea of giving people, in exchange for loans, slips of paper, saying: "I promise to pay . . ." In this way he created the forerunners of the modern bank-note.

Charles, being a king, was only concerned with large sums of money, of course. His "notes" were never for small amounts. The holders of these notes took them to the goldsmiths, who cashed them. In return they issued "I-promise-to-pay" notes for smaller amounts.

The inevitable happened in the end, naturally enough. Charles failed to pay up. So the goldsmiths couldn't pay either.

Banking was developing, nevertheless. People were learning.

A generation or so later, William III (of Orange) was broke, too. The country would not stand for any more taxation. The people had not been as well trained in those days as we now are. He could not see where he was going to get any money.

And this was a serious matter to William. There was a small war being waged on the Continent and he very badly wanted to get mixed up in it . . . as it involved some grudge or other he had acquired as a Dutchman and that he felt it to be a matter of honour. But he had no funds to gratify the whim.

So William wanted money very badly. And experience showed that this was always the best time to approach a king.

All of which was known to one William Patterson, born in Dumfries in 1658, a merchant of London in that epoch-making year of 1694. "Every known expedient had been tried to get funds," he explained afterwards.

Patterson understood, too, how involved the Government was with the king's reign and how the one could be used to handle the other. So he talked the matter over with another City merchant, called Geoffrey. Together they put up a very cunning proposition to the noble monarch.

Briefly, Patterson said something to this effect: "I will undertake to lend you £1,200,000 at 8 per cent plus £4,000 for the trouble, if you will arrange for Parliament to give me the right to issue our 'promise-to-pay' bank-notes for a similar amount, such notes to be guaranteed by Parliament."

William said "O.K.," or something similar, and the Bank of England was, in fact, founded. Money was rapidly

subscribed, largely by the Dutch, and the first Board of Directors was largely composed of Dutchmen.

The wily Mr. Patterson (whose name is not to be found in the *Encyclopædia Britannica*) had established the Bank of England. At the time of this achievement "his whole capital," says Lord Macaulay, "consisted of an inventive mind and a glib tongue." Now he had owing to him £1,200,000 at the very generous interest of 8 per cent, with the Government guaranteeing a similar amount in notes, which he lent out to other merchants at interest.

He had also obtained legal right to issue notes and £4,000 for his trouble. Good business!

As Hilaire Belloc described the situation:

> "Money was needed for William's policy of Continental war, and this group of rich men proposed to lend the Government £1,200,000 upon terms which, including commissions and perquisites, came to between 8 and 9 per cent.
>
> "This was the beginning of the National Debt. . . .
>
> "It could not fail as long as the Government could tax Englishmen in order to pay its debts . . . and the bearer knew that there would be no default so long as a Government responsible for the Bank Charter existed and could force people to pay taxes. . . . But the Bank of England was not a Department of Government, as it should have been . . . pursuing a policy of its own; and from that day onward in greater and greater degree the Bank of England has had the last say in any Government policy involving expense, and particularly in the matter of foreign wars and coercion of Dominions . . ." (*Shorter History of England*, 1934).

And this National Debt grew very rapidly once it was started!

Begun with £1,200,000, it was increased by £18,000,000 during the war of the League of Augsburg (in which Spain, Holland, Sweden, Savoy, and Great Britain were involved with France for some reason not readily discernible).

This might well be compared with a cost of £5,000,000 for wars during the whole reign of "Good Queen Bess."

The War of the Spanish Succession cost some £50,000,000, half of which went to the National Debt, which, by 1717, reached £54,000,000. On the eve of the American War it stood at £126,000,000, and by the close of the Napoleonic wars had reached £859,000,000. To-day it is just under £8,000,000,000. So much for Patterson's inventive mind!

His own words about the foundation of the Bank were quite candid. He explained to his colleagues what he had "got away with."

> "The Bank hath benefit of all interest on moneys which it creates out of nothing."

By its indebtedness, the Government became gradually the pawn of the Bank of England to such an extent that in 1708 it had to pass a further Act giving it a virtual monopoly in the country, by prohibiting more than six people to come together and collaborate in forming a bank. Banks of the period were, therefore, for the most part private ones, owned by individuals, and this continued until 1826, when the Act permitting joint-stock banks was put on the Statute Book.

The Act that created the Bank of England allowed it to issue notes up to but not beyond £1,200,000 under its "common seal." To issue notes above this sum would have been contrary to the Act. But such a scrap of paper could not be allowed to hamper the ingenious Mr. Patterson. The issuing of notes, "created out of nothing," at interest, was very good business and the more that were issued the more business. So more notes he issued, but not under the Bank's "common seal," implying the

bank's liability. He issued them under the cashier's signature, thereby avoiding legislative consent.

You will find a survival of this to-day if you examine a Bank of England £1 note. Artistically concealed is "I promise to pay," followed by the cashier's signature in the right-hand bottom corner. Unless inspected carefully, it appears that the Bank of England "promises to pay."

Thus was created the Central Banking System of this country. In this way the National Debt was founded. The prerogative of credit inflation and deflation passed from the central authority to a private institution.

"Governments were enabled, for their immediate purpose, to saddle posterity with the duty of financing their wars, while, what was worse, wealthy men found an opportunity for levying a permanent tax upon the community" (HILAIRE BELLOC, op. cit.).

"Yet the most important result of that revolution was the concession to the Bank of England of these extraordinary privileges of inventing money—thus gradually creating a lien in their favour of the national wealth" (CHRIS. HOLLIS, *The Two Nations*).

It is interesting to note in passing that the first note-issuing Bank of France (1716) had as its founder one John Law, a Scotsman, who had previously earned some notoriety in this country and did so again eight years later with the crash of the South Sea Company—the historic South Sea Bubble—with which he was closely connected.

Much of the system on which the Bank of England was run was borrowed from the Dutch, who had some experience in the Bank of Amsterdam. Founded in 1609, this institution was created to establish something of an international currency against 100 per cent good coin of any kind. It failed after 182 years and its coffers were

found to be empty of anything except receipts for loans, mostly valueless.

Its actual constitution is described in these words by Sir Walter Leaf, one time Chairman of the Westminster Bank:

> "To set on foot what was practically an international currency. Against deposits of good coins of any currency, it was prepared to open accounts in bank money, charging for its services and undertaking to hold in its vaults all the coin deposited with it. It had no power to lend money or discount bills" (*Banking*, 1934 edition).

This was a very sound basis, but what happened?

> The lending function developed gradually and surreptitiously. It was an abuse, made easy by the fact that no public reports were required of the bank. . . . The City of Amsterdam Bank failed after 182 years, after carrying on with a Constitution which enabled the Administration to hide guilty secrets and stifle suspicion. It was lending money to Amsterdam and replacing the cash loaned with a promise to the City. This had gone on for a century and half without the knowledge of the public (Précis from IRVING FISHER, *100 Per Cent Money*).

The history of the Bank of England is wrapped in mystery; but it has not been so disastrous as far as one can tell, due probably to the peculiar relationship between itself and the British Government as guarantor to a private company.

Between 1814 and 1816, 240 English banks (private ones) stopped payment and, in six weeks of 1825, 70 closed. Banking was not, in those days, as reliable a business as in these. The Bank of England, too, had its close shaves. In 1797 there was a run on it. A manufactured inflation was followed in 1836 and 1837 by a collapse when panic nearly closed the doors. In 1839—just a

hundred years ago—it had to seek the help of the Bank of France.

From the start the Bank was regarded as a tool of the "Whig" financial clique, the Whigs being the political party in power. The Tory opposition—by no means won to whole-hearted support of William, from the alternative Stuart claimants to the throne—at once attacked it. In 1696 they tried to start a competitive Land Bank.

The goldsmith-bankers attacked it; it threatened their business. In 1697 they selected a date when the work of re-coining had produced a temporary lack of currency. They had carefully selected large quantities of bank-notes in readiness. These they presented at once in an attempt to "break" the Bank.

It is probable that the steady Whig administration, the solid support of the "City" and the firmness of William on the throne was largely due to the common interest they all had in the Bank of England. A change of Government or king might have led at once to repudiation of the Bank's notes. It had become a great vested interest.

> There is not an instance of our economic system having stood up to a real crisis (Précis from *The Two Nations*, CHRIS. HOLLIS).

Is that remarkable? It was not created to do so.

The same situation still prevails. The Bank of England remains a private institution; its activities are a secret. A study of past crises enabled Sir Walter Leaf to say:

> "In all cases of fraudulent bank failures it will be found that the auditor employed to certify the balance-sheet has been either the creature of the responsible manager or a principal in the fraud."

But that does not give us much help where the Bank of England is concerned. The material made public is incon-

clusive and indecisive. As an example, Sir Walter notes: "'Public deposits' represent, as set out, the balance standing to the credit of various Government Departments. . . . they are an element of mystery."

So vague and uncertain are the affairs of Britain's Central Bank that they are best summed up, perhaps, by this story, told by Sir Walter Leaf, of a conversation he had with Mr. Montagu Norman (who approached the whole subject of economic crisis, you will remember, in "ignorance and in humility"):

> "I was discussing the Bank Return with the Governor of the Bank during the war, and mentioned that there was only one line of it which I thought I understood, and that was the line 'Gold Coin and Bullion.' The Governor, with a twinkle in his eye, replied, 'Mr. Leaf, I do not think you understand even that.'"

And this is the basis and corner-stone of Britain's present-day banking and financial system.

CHAPTER III

THE PRESENT SYSTEM—ON PAPER

(i)

THIS chapter is not a treatise on banking, but a brief résumé of how export and import are supposed to work as far as established economic theory is concerned.

There is no phrase more dear to the heart of the orthodox economist than "balanced trade equilibrium." It conveys all that commerce should be but is not. It sums up all the hopes and aspirations of statesmen, statisticians, planmakers and business-men. It is the Utopia of import and export. The notion arose from the days of barter, which is, in fact, balanced trade equilibrium. To apply the phrase to modern trade is farcical; it is the one thing we have not.

In the days when barter was the predominant technique of commerce, goods were taken abroad in ships and were exchanged for other goods abroad by the owner who was often the captain of the vessel. When the exchange had been made, the foreign products were in turn brought home and again bartered on the home market.

If there was a recognized currency in the home country, these new goods were exchanged for it, and the money received was used to buy further goods to take abroad, on a further voyage.

Not only were the goods originally exported bartered with others abroad, but these in turn were bartered for others on the journey—food for the crew, additional goods in the various lands that were visited. This produced a very simple system of balanced foreign trade (pure

exchange of so much from the captain for so much from the native) in many countries. What we call "balanced multilateral external trade," including the so-called "invisibles," such as shipping costs and such insurance as was possible. This meant that the trade of several countries balanced.

Every country was able to "pay." No country was in the position of being an importer only or exporter only. No country ran into debt for this reason.

Sometimes, when there was complete trust between merchants, there were even Bills of Exchange, and this helped business forward. A director of the East India Company, Thomas Mun, described it in 1621:

> "Neither is it said that Mony is the Life of Trade, as if it could not subsist without the same; for we know that there was greater trading by way of commutation or barter when there was little mony stirring in the world. The ITALIANS and some other nations have such remedies against this want, that it can neither decay nor hinder their trade, for they transfer bills of debt, and have Banks both publick and private, wherein they do assign their credits from one to another daily for very great sums with ease and satisfaction by writings only, whilst in the mean time the Mass of Treasure which gave foundation to these credits is employed in Foreign Trade as a Merchandize, and by the said means they have little other use for mony in these countreys more than for their ordinary expenses" (*England's Treasure by Forraign Trade*).

This simple balanced trade is, in its essence, the only possible form, if disaster is not to ensue. A country's exports and imports must balance *with the world.* A country can only sell as much as it buys in the long run.

In a simple village community, the farmer bartered his produce with carpenter and weaver. He did not give them more than he took back. The value of his exchanges were, as near as he could judge, equal.

The same applies to a country's trade. If Ruritania buys from Anonia, Ruritania can pay in one of three things: Ruritania currency, Anonian currency or gold (if this is mutually recognized).

To take the last first, there is only a given amount of gold available. If Ruritania pays in gold and goes on paying, buying more and more goods from Anonia, not selling anything like as much, in the end she will run out of gold and cannot buy any more.

If Ruritania pays in Anonian currency, she has to get it. To do this she must sell an equal value of her own goods to Anonia and be paid in Anonian money.

If Ruritania pays in her own currency, this will be no use to Anonia—it is so much paper—unless she uses it to buy Ruritanian goods.

Under any scheme, the only possible long-term arrangement is for exchange on an equal basis. The more one buys from the other the more the other must buy in return. One-way trade is an impossibility in the long run.

In the days of an almost universal Gold Standard or convertible currency, you could still have "balanced multilateral external trade," including "invisibles." You bought and sold through the medium of currency. This was a sort of second-hand or indirect barter. The currency could, in turn, be converted into gold. It had an agreed "notional value."

The recognition of gold as a standard of value, in external and internal trade, was to have unlooked-for results for the stability and peace of the world, results not inevitable with a barter relationship.

The issue of currency in this country, based on gold, was vested in the Bank of England. They were allowed to issue currency notes in a large excess proportion to the gold held. The orthodox economist will tell you that the

Gold Standard works automatically, as regulated by Act of Parliament, in this way.

After the return to the Gold Standard in 1926 (until we partially left it again five years later) the position was roughly the same as that which had governed our currency since the Bank Charter Act of 1844 up to the start of the Great War. The Bank of England gradually obtained the sole right of note-issue in the country. Before the war this was limited by Parliament to just under twenty millions (the original issue plus two-thirds of the issue of the old country banks that had been absorbed by the Bank of England as far as their right of note-issue was concerned) and further issues of a pound for every pound of gold the Bank held.

Gold was no longer circulating in sovereigns, half-sovereigns, and so on after the war. The Treasury, too, gave up issuing notes in 1928. The situation was then the same as before the war, except that the Bank was allowed to issue £260 millions of notes, without holding gold and then pound-for-pound.

This is not the end of the story, however, because for every £1 held the banks lend £10 in "credit." This is on the average. As we saw with the goldsmiths, they found all their clients never wanted all their money at once—a "cover" of 10 per cent was all that was needed. So they "create" by loans £10 for every £1 of real money. Each additional £ of gold in the Bank of England means therefore £10 "credit" currency in circulation, multiplied by ten, whilst each £1 of gold that leaves the country means a loss of ten times the amount in the country's circulating credit.

Any given amount of currency will distribute any amount of goods indefinitely. The only important point is the relation between them.

If there are a million bags of ambrosia—we will take this to mean all the different goods of a country, lumped into one—and a million pounds in use in the country, each pound will equal one bag of ambrosia.

That will be its *price.*

If someone hoards £500,000, and doesn't spend it or send it abroad, there are only £500,000 left to equal the same amount of goods. £500,000 has to do as much "work," circulating and distributing ambrosia, as a million did before.

As a result 10s. or half a pound, will be offered for a bag of ambrosia.

It will seem to the farmer or miller that the price of ambrosia has fallen. But this is not really true. What has really happened is that no alteration in the price of ambrosia has happened, but its relationship to pounds has shifted. From being 1 to 1, it is now 2 to 1. But the common citizen does not know this; he cannot count all the pounds in circulation.

This lack of knowledge is the asset of the speculator. At any moment he can buy up a million bags of ambrosia with the half million pounds he is hoarding or has taken abroad. The price will then return to normal. All the million pounds are once more in circulation. The ratio is one to one. He can sell at a 100 per cent profit!

The theory of "automatic checks" is supposed to work in this way. By raising the rate of interest it will pay on deposit or on "discounting," the Bank of England can attract gold from abroad. People will send their money to England, where interest is high.

When the Bank gets its additional stock of gold, it issues notes, pound for pound. Credit currency increases in quantity. If that meets a need, if there is a relatively growing trade—no price increases will be the result.

If, however, the currency is more than keeps prices stable, goods will "cheapen" comparatively and so prices will rise. The more money there is in circulation, to equal all the goods, the dearer they will be; the less money to go round, the "cheaper."

This may cause prices to rise, but the same higher interest rate will discourage speculation in goods. All speculation is carried on with money borrowed, in the last resort, at least, from the banks.

Higher prices will make it harder to sell our goods abroad. Exports will fall. It will be easier, at the same time, for foreigners to under-sell us; we shall import more.

This will lead to us exporting gold to pay for the difference between what we buy and what we sell. Currency and Credit will then have to be reduced in the same proportion that it was increased. Balance will be restored.

In this way the amount of currency in circulation is supposed to keep prices stable and to meet the demands of trade.

That was part of the complicated system of "checks and balances" around the Bank Rate and the Gold Standard, to which economists love to point. It was part of the "beauty" of the Gold Standard. But it was skin-deep only.

It failed to take account of the fact that as long as it is possible for people to export currency in the form of gold they will do so in panic at any time that they have any nervous apprehensions regarding the political or economic atmosphere of a country.

(ii)

The door was left wide open for a large number of abuses, aided in particular by the slow action of all these "automatic checks."

The Bank of England could issue notes and credit in very high proportion to the amount of gold held. If gold was withdrawn the community felt the loss acutely.

Prices would fall with the loss of currency and credit, and the smaller amount of money had to carry out the tasks of the larger quantity. Money would be "scarce" compared with goods.

Hoarding gold by people could have a similar result. Here is a simplified example of a frequent abuse by speculation.

Mr. Jonas is a trader in a country on the Gold Standard, which we will call Ruritania. He may form a syndicate with some friends and begin accumulating gold. They are speculators and, to suit their own plans, they arrange to transfer this gold abroad—to Anonia, let us say. In this way, they deprive their own country, Ruritania, of its benefits where the goods it represents, and for which they obtained it, were made.

Perhaps they did this because they were tempted by the high rate of interest offered for gold deposits by Anonia.

But this action of Mr. Jonas has a very serious effect on Ruritania and may have an equally grave one on Anonia, too, if it is placed in the same position as Great Britain was in 1931.

They have shifted large sums of gold from Ruritania to Anonia and this sum means many times the amount of currency and credit taken from circulation in Ruritania. Ruritania will now be seriously short of currency and

prices will fall because the small amount of gold left has to do the work of the larger amount previously there.

Producers, manufacturers, merchants, and so on in Ruritania will be badly hit by the sag in prices. Unemployment, bankruptcy will undoubtedly follow, as the farmers and manufacturers paid for their seeds and labour and raw materials at the high price and must now sell for the lower.

The Jonas Syndicate, however, can now return their gold to Ruritania, by buying up with it large stocks of goods at the low prices they have created. Prices will gradually rise as the gold is thus repatriated and multiplied by ten in credit creation; the Jonas group sells out at a good profit.

Or they can do other things. While Ruritania has been passing through its artificially created slump, Anonia, as a result, has been flooded with gold and money has become cheap. There has been by the reverse process an apparent boom and prices have soared.

Trade is often carried on in what are called "futures." That means supplies of goods sold for delivery later on. The Jonas Syndicate can, therefore, sell in Anonia for delivery in three months at the high prices they have themselves created. They can sell anything—commodities like copper, rubber, wheat, or stocks and shares.

Then they can transfer their gold to Ruritania again. Anonia, short of currency once more, will have a slump as Ruritania had. Prices will come crashing down. When the time comes for the Jonas crowd to deliver the goods they have sold at boom prices, they can buy them at the current low price they have created and clear a large margin of profit on the difference.

These methods can be repeated again and again in

many countries. The effect on world trade is, of course, chaotic and devastating.

This is a broad but simple explanation of international speculation, common in countries on a Gold Standard. It needs little effort to fill in the stock, share, and exchange transactions which are the usual media of the international speculator.

When you read "Speculators' Raid on the Belga" (May 10, 1938), or "Speculating in the Franc" (September 1937), or anything like that in the papers, you can see what is happening. It is the sort of thing that arouses indignation of all sane and responsible observers of affairs.

Dealing with the situation a couple of years back, R. McNair Wilson wrote:

> "In spite of M. Flandin's boldness, however, the gold currencies remained exceedingly weak and there were 'runs' on the Dutch, Swiss, French banks, and heavy exports of gold to America and London. . . . On 16th April, however, a new and most violent attack was made upon the Dutch Florin. . . . The Chinese Government replaced the banishing credit by new money of its own creation, and so saved the country from ruin" (*The Defeat of Debt*).

"The buying of francs or other currency as compared to a universal currency, can upset the entire equilibrium with dire effects all round," says Norman Angell.

> Some of the famous crises of history have arisen from private speculation and manipulation (Précis from R. G. HAWTREY, *The Gold Standard*).

Just as Bishop Berkeley wondered in 1735 "whether a few mishaps to particular persons may not throw the nation into the utmost confusion."

(iii)

But the Gold Standard is already almost a thing of the past as far as our internal currency is concerned. We live for the most part under a "paper standard" or inconvertible currency.

Although we are not in fact "off gold" for the purposes of our export trade, gold is still supposed to be the basis by which international differences are settled.

Since we were supposed to have "gone off gold," the Bank of England has been steadily piling it up to the tune of some hundreds of millions of pounds' worth. As S. S. Metz in *New Money for New Men* says:

> "This in itself involves, for a non gold-producing country, importation of gold from abroad. Theoretically, to the extent that we pay for the gold we could not pay for other goods from abroad, so that the imported gold would displace other imports which could have been afforded if gold had not been needed as a basis of credit."

In internal trade, our leaving the Gold Standard means that notes are printed to an agreed amount and trade is done on a book-keeping system. Internal hoarding, as represented by gold, is made more difficult. Notes may still be hoarded, of course, but this is not apparently a serious trouble. The currency is largely in books, for hand-to-hand, weekly, or pocket money only represents a small proportion of the nation's currency, and that returns to the banks very rapidly.

Even so, money, as hand-to-hand currency, tends to diminish and book-keeping transactions tend to increase in quantity, as was pointed out by the Macmillan Committee.

From an external point of view, however, the system

is still vulnerable. It is still possible to transfer abroad currency, representing wealth produced by a given community, for purposes quite unconnected with the legitimate exchange of goods and services. No really balanced multilateral external trade exists or can exist.

Speculation can continue. To counter it, the Governments of Great Britain, France, and the United States of America created an Exchange Equalization Account. N. F. Hall defines their purpose in these words:

"It was not desired to discourage foreigners from holding Sterling balances, if they wished to do so, because the presence of foreign balances in London is an important factor in pushing down short money rates. . . .

"The object of the authorities was to prevent changes in foreign balances moving the exchange away from the equilibrium rate at which it was tending to settle under the influence of normal long-term industrial accounts" (*The Exchange Equalisation Act*).

Apparently the fund has not proved very effective as far as France is concerned. And, in any case, it seems rather like placing a fence round the field when closing the stable door would be more to the point. Its purpose could also be defined somewhat along these lines:

Created to prevent speculators doing what they are in law perfectly entitled to do. The mystery of its source, a product of modern parliamentary economics, has profoundly disturbed the Magicians' Circle.

The authorities first of all reach agreement that a given unit of metal shall be equal to one man's labour for a week. When enough is collected and buried underground, they decide that the equivalent of the man's labour shall now be half what it was before.

This means, they say, that the metal they have collected is now worth double what it was worth before; so they can use the profits to speculate with, in International money—and thus prevent other people doing so.

We could explain the matter best in dialogue form:

Q. What is gold?

A. A fixed measure of value.

Q. To whom do the gold stocks at the Bank of England belong?

A. The depositors.

Q. Who are the depositors?

A. The community.

Q. What is the Exchange Equalization Account (E.E.A.)?

A. A Treasury Account, with £575 millions in it, that is used to prevent speculators speculating.

Q. Why should they not speculate?

A. Because it is wicked and it upsets the system.

Q. How do they stop this speculation by the E.E.A.?

A. By doing the same as the speculator and so stopping him doing it.

Q. Do they lose much money doing it?

A. No; they expect to make a big profit.

Q. Do not the speculators sometimes come to serious grief?

A. Yes, but they have only had their own money to speculate with.

Q. How much profit has the E.E.A. made?

A. We are not permitted to know that.

Q. But is it not the community's money?

A. Y-e-s, but it would never do to let them know.

Q. Who loses this money they make?

A. What does that matter?

Q. How do the Treasury get the money they have in the E.E.A.? By taxation?

A. Oh no, it does not cost the community one penny. When they started it, the Bank of England revalued the

gold stocks held by them and gave the Treasury the profit.

Q. What, for nothing?

A. Oh no, the Treasury paid for it.

Q. Where did they get the money?

A. They borrowed it from the Bank by Treasury Bills.

Q. So they don't own it?

A. Oh, yes, they have paid for it.

Q. Then the Bank no longer have it on behalf of the community?

A. Oh yes. They still hold it as security for the loan.

Q. But I thought you said that it belonged to the community?

A. Yes, but you see they are no longer allowed to have gold currency.

Q. Was the profit made by revaluing enough for them to speculate with?

A. It was all right as a start. It amounted to £175 millions. It is now at £575 millions.

Q. How did they get the increase?

A. Quite simply. They exchanged goods that the community had produced and, instead of taking raw materials and foodstuffs in exchange, they took more gold. This clever move enabled them to turn each £100 millions into nearly £200 millions.

Q. But how? Surely if gold is worth £200 millions you must pay this amount for it?

A. Yes and no. You see, under the Bank Charter Act, the Bank of England may not pay more than 77s. 9d. per oz. out of the community's money. They therefore arrange that the E.E.A. shall supply the money for the difference.

Q. But I thought you said that gold was a measure of value? Surely the E.E.A. must suffer a severe loss?

A. Not at all. It is quite simple. They first borrow the money at interest from the Bank of England by Treasury Bills.

Q. Then the Bank has parted with some of the gold belonging to the community?

A. Oh no. The Bank still retains it as security for the loan.

Q. Where do the Treasury get their money to pay the interest? From the Bank?

A. No, by taxation.

Q. Will the public eventually have to pay, as taxation, the capital sum also?

A. Of course they will, if it is lost.

Q. And then they may have to borrow from the Banks to pay it?

A. Yes.

Q. So in that event, they will be borrowing money on which they pay interest in order to pay off a liability on which by taxation they have already been paying interest, on money that has all the time been their own?

A. Y-e-s, I suppose so.

Q. Could not the Government alter its system, making speculation impossible?

A. That would be unthinkable. A large part of our banking system derives its profits from speculation, and it would even call for the closing down of the E.E.A.

Q. But are the banks established to assist trade and the exchange of goods?

A. Certainly, but as the Macmillan Committee makes it clear, their primary duty is to make profit.

In the same way, the writer might define a speculator something like this:

"One who makes something out of nothing. In ancient times he filed or 'sweated' coins and, if found out, was hanged. Nowadays, if found out, he goes to prison and is kept in food, clothing, and lodgings by the community which kept him before. If not found out, he is possibly created a Lord, for so charitably giving the money he took off you to charity. The Exchange Equalization Fund was created to enable the Government to play the same game."

Whether the Fund would be really effective in conditions of crisis is more than doubtful. Collin Brooks says:

"It is extremely doubtful if such machinery could cope with a true crisis in our exchange, any more than the French Government could cope with a flight from the franc" (*Can 1931 Come Again?*).

We shall sooner or later have to put the matter to the test.

(iv)

Let us look at the question of exports and imports. What are they, and how do they fit into the scheme of things?

What is a normal export and import transaction?

Messrs. Jones & Co., Export Merchants, of London, sell some goods to an American company for £1,000. Jones & Co. pay the English manufacturer of the goods cash. Then they take out a Bill of Lading, which is a document signed by the master of a ship or his agent, which constitutes a title to the goods loaded and which they have undertaken to deliver. Messrs. Jones & Co. pay insurance and freight.

Now Messrs. Jones & Co. draw a bill on their American customer, due at an agreed date. They pass all these documents through their bank, or they may post them to the customer direct. They will then wait until payment is due or, perhaps, will discount the bills in London, and in this way get their money at once.

An import transaction is the reverse picture of the same thing.

The Discount House fulfils a useful function. In connection with export and import transactions of this kind, in certain centres like London and New York, these Discount and Acceptance Houses have been established. Their business is to deal with bills like those described above. For a commission they will cash them before the date is due.

Each week they receive thousands of bills in every possible currency. They list them and cancel many of them out, against each other—francs owing against francs owed, for instance. They have then only to buy or sell francs, for example, to meet the differences.

The Discount Market provides us with a very considerable amount of information about the state of international trade and the balance of payments and transactions. It is only a rough indication, however, as experience shows there are many other factors in deciding this question. But its rough indication is invaluable.

The simple export and import transaction given above as an illustration is normal; but to understand the real position in which we find ourselves, it is necessary to appreciate the abnormal conditions in which we live. They are the products of politicians and their attempt to run the business world.

In the post-war years some Government decided to control the free payment by its citizens for goods they had bought.

They would allow them to pay only a certain amount of money out of the country. The rest remained debt, or had to be taken out in goods.

Other countries followed suit and at once, almost, a whole series of clearing agreements between countries

sprang into existence. These agreements were bilateral. Each two countries came to a separate agreement. They stated how much they were willing to exchange with each other. In essence, they were a return to barter.

Simultaneously and out of this, there developed a whole mass of trade-restricting expedients in which each country tried, it would seem, to outdo all others in curtailing international trade.

These conditions are so blatantly suicidal that even the politicians responsible will admit it at once; they excuse themselves by pleading that they were not the first to start it all, but had to follow suit, in self-defence. It has become a vicious circle that no one will be the first to break.

The writer was recently at a meeting in Paris, where all the speakers, of different nationality, agreed that the vicious circle must be broken, but each, apparently, had at the back of his mind his own country's internal economic position; no one seemed to take a broad world attitude.

Each attempt to break the circle found an opponent who regarded just that one point good, valuable and highly desirable from his own country's standpoint.

In 1934 the League of Nations sent a questionnaire to a number of countries, asking why these trade restrictions and clearing agreements had been made. The following typical replies are interesting:

BELGIUM

> "The exchange control measures adopted in foreign countries with their harmful effects on the Belgian export trade induced Belgium to conclude clearing agreements."

CZECHOSLOVAKIA

> "The reason why Czechoslovakia has been compelled to conclude clearing agreements with other countries has always been the impossibility of obtaining payment for

Czechoslovak goods and other claims on the countries concerned, owing to the restrictions imposed by the latter on foreign exchange dealings."

DENMARK

"Denmark has only one clearing agreement—viz. with Germany. The reason which led to the conclusion of this agreement was the difficulties created by the foreign exchange regulations in Germany."

ESTONIA

"Cause of the agreement with France: The unilateral institution of clearing agreements by France in order to recover his outstanding debts."

FRANCE

"France was compelled to resort to compensation in order to come to the relief of French traders and industrialists exporting to countries with a foreign exchange control instituted at any rate in one of the contracting countries."

NETHERLANDS

"The Netherlands desired to retaliate against unilateral action on the part of certain countries in the matter of foreign exchange."

SWITZERLAND

"To safeguard the interests of the exporters; to recover 'frozen' commercial and financial debts; to obviate the consequences of restrictions imposed on foreign exchange transactions in countries parties to the clearing agreements."

We have the system on paper. It may be good or it may be bad. But the above remarks show that in any case it isn't working at all at present.

CHAPTER IV

WHERE THE SYSTEM FAILS

(i)

It is abundantly clear that any system or organization of Society which permits some people to live in plenty and others, willing and able to produce, to starve, because of an illogical manipulation and management of counters, representing production, must suffer from serious defects.

"We have a physical plenty," says Jeffrey Mark, in *The Modern Idolatry*. "We could physically exchange it—but for our book-keeping system."

Eimar O'Duffy, in *Life and Money*, writes:

> "But the rich are no more villains than the poor are heroes, and the fact is that both are being helplessly whirled along by a machine which they don't know how to work. . . .
>
> "The very bounty of nature has the same effect, a bumper crop of wheat or fruit in any part of the world being regarded as a calamity by all who live by the toil of cultivation."

Let us look at the defects in our system and see where they are leading us.

Money is said to be a measure of value. "The sole use of money (as money) is but to keep an Account of other things by," wrote John Asgill in 1696.

"Money is merely a title to wealth," is Arthur Kitson's definition. "It is redeemed every time it is accepted by the public for goods and services, and needs no gold redemption."

Money is then, by common consent, a measure of standard of value. *It can only fulfil this function properly*

when the quantity available has some definite and direct relationship to the quantity of consumable goods available.

A certain amount of food or clothing, for example, enough to cover the basic needs of a man for a certain period, may be taken to cost 20s. This relationship is calculated on the quantity of currency in circulation. Any system that then allows this measure to be falsified by withdrawing from or adding to the circulation must obviously increase or decrease the cost of living accordingly.

Strikes are the inevitable result, poor feeding on the one hand or the slowing up of production on the other.

The housewife who has only 20s. to spend finds her money has been tampered with so that it no longer buys the same amount of food and clothing. She will not be a contented and satisfied citizen. If it means she has to pay a quarter as much again for her milk, her bacon, her butter, and what-not, she is obliged, either to make her family suffer by eating less or undergo even greater privation temporarily, while her husband goes on strike to get a 25 per cent increase in his wages.

While he is on strike, trying to get his wages on to the same level as the cost of living, trade will suffer even more. Firms supplying the factories on strike will go on short-time. The strikers will have reduced spending power —so that shopkeepers, wholesalers, and, behind them, production, as a whole, will suffer.

If her husband fails to win an increase, the housewife may have to forgo cinema, clothing, and so on, and spend the 20s. wholly on food (at 25 per cent greater cost)—which will lead to unemployment in those other trades.

The manufacturer, too. His production costs are based on the same measure of value. He finds that demand has sunk with the rising cost of living. (The money counters are less valuable, in other words.) Currency has been

"inflated." The Jonas Syndicate has imported gold or something similar has happened.

He cannot sell as many goods as before. To balance the declining demand, he reduces production. He cuts staff, which means he must pay less workers' wages for producing, and pay more taxes to pay the same men to be idle, producing nothing.

If, on the other hand, the currency is "deflated"—by the amount being cut down—the Jonas Syndicate ships its gold abroad, prices come toppling down.

But your producer's rent, his rates, taxes, wages, and so on remain at the old fixed figure. His "overheads" are constant. His only way of meeting the fall is by reducing the amount of labour used by introducing labour-saving machinery (and adding to the unemployed), or by cutting wages to meet altered money values.

In both cases a vicious circle, created by the illogical management of a brilliant principle—i.e. currency as a substitute for barter.

The external reactions, beyond the frontiers of the national economy, are, however, even more serious.

Theoretically, exchange rates for the purchase of foreign goods are based on the international values of a currency, and the state of a country's trade with other countries. But previous chapters will have shown some of the weaknesses in this theory.

An unjustified increase in our currency will be reflected in the rate of exchange. We will be forced to pay more of our currency to buy the same amount of foreign currency. Thus, in pre-war days, a thousand dollars (U.S.A.) cost us £200. In post-war days they cost £300. To-day, once more, they cost us about £200, with a distinct downward tendency. Each variation in our daily exchange affects the cost of our day-to-day import needs.

(ii)

Let us follow the working of the present principles in internal trade during recent years.

Before the war we were an exporting nation. We exported more goods than we imported.

This could be put in another way. We would say that foreign customers were buying more from us than they sold. In the long run they would have been unable to pay. We agreed to let them owe us the balance and pay interest on it.

They paid this interest, for the most part, out of further sums we lent them. And this state of affairs went on until the interest they had to pay annually was greater than the new amounts we were annually lending them. Then they defaulted.

In short, we had presented them with the products of our own labour, often in the shape of machinery with which to avoid buying finished goods from us in the future, perhaps even to compete with us in our own and other markets.

During the war these matters came to a head and the foundations of a new epoch in our commercial history was laid. Every country of the world borrowed huge sums of money. These were spent with an extravagance and a lavishness never before equalled. A perfect frenzy of buying. The countries lending the money found themselves working night and day, manufacturing and delivering goods and armaments that were being bought with their own money. Trade expansion and industry in the lending countries and in many of the creditor nations had never reached such heights before. New plants were built. New wings opened to old ones. Colossal capital expenditure on new and faster machinery was made. The pro-

ductive capacity of the world leapt upwards. From the point of view of creating the basis for an "Age of Plenty," Man took a very long step forward, but towards realizing that object the step was in a backward direction.

Peace followed. It is not necessary now to describe that peace, planned by so-called "level-headed" men. The Experts, as they were termed, put forward by the political, financial, and economic world, re-drew the map of Europe, politically and commercially, as they would have it be and as they wanted to make it work. Twenty years after no one needs the writer to point out the futility.

Some of the men who planned the peace are still advising us what to do in the mess their peace has created.

The advisers of these same men are, often enough, picked for Royal Commissions of Enquiry, to discuss means of getting us out of the anarchy and chaos they helped to make.

These men, supported by their financial experts, schemed a peace that should force Germany to pay for the war. To fulfil the obligations they piled on her—to obtain the gold and currencies she was obliged to find, she would have had to become the only export seller of goods in the world. The markets over which the war was fought would have been lost to the victors permanently.

As the Macmillan Report commented on a proposed German loan: "If Germany borrows, she must reduce imports and cut prices for export to pay her debts." That was the situation in a nutshell.

The result may be summed up in the question suggested by Sir George Paish: Are not the nations suffering because they are owed money? in *The Way to Recovery.*

Germany's effort to pay the war debts meant ruin to the export trade of every other country.

So little did the financial advisers understand trade and

finance that they believed in all earnestness that the internal wealth of a country like Germany, represented by buildings, factories, internal currency, and so on, could be "cashed" by us externally.

But every other country of the Old World—and quite a number in the New—was in debt. Each country could only pay if it exported more than it imported. They all attempted to close their own internal markets against imports and to export only. They were all out to force everyone else to pay their debts, but not at their expense.

Every country was to export and export only. The problem was—to whom?

All tried stopping others selling to them whilst still trying to sell to others (Précis from HUGH DALTON, *Unbalanced Budgets*).

"The outflow of gold from Europe to pay the interest on the new loans, the instalments of war debts, and the commercial debts reduced European buying power by some 40 per cent," says R. McNair Wilson in *The Defeat of Debt*, "and so brought down the price of all goods, but especially of farm goods, the production of which cannot be reduced so quickly as the production of factory goods."

Results were obvious. As far back as 1933 Arthur Kitson announced, "The repudiation of debt will become inevitable."

The full measure of evil is epitomized in speeches on "A New World of Economic Plenty," made at Leipzig Fair in 1935 by Sir George Holden and Bernhard Koehler.

"The destruction of the balance of service between the nations by means of debts in respect of material which has long been destroyed on the battlefields of the World War has inevitably resulted in a reduction in purchasing power, unemploy-

ment and measures of isolation, the ill effects of which have become apparent in all countries. . . .

"Since the world is hopelessly entangled in a mesh of indebtedness still further indebtedness can hardly be regarded the best way of getting out of the dilemma. . ."

Thus we suffer from the ignorance of our "Experts."

(iii)

Every country vied with every other in methods which reduced the world to trading impotence. Balanced external trade went by the board. Tariffs were acclaimed as the only true economic salvation—"Keep the foreigner out!" "Buy British!" They were the only way to stop foreign goods coming in and the only way to secure foreign currencies while preventing other countries obtaining ours.

If it is true that a balance between countries must prevail, that a country cannot buy more than it sells—without sooner of later repudiating its debts and so getting the balance for nothing—if this is as sound as it is obvious preventive duties are foolish.

No country can buy from you—and pay—unless they have your currency, and they can only get that by selling to you. To put up preventive tariffs against their goods is to cut your own export trade.

Such slogans as "Boycott Japanese Goods," "Buy British," are all absurdities on a balanced trade system. The boycott of Japanese goods can only stop an equal amount of British goods being made in exchange. "Buy British" may mean stopping international trade, by which we improve our and other countries' standard of living. But our leaders do not look at the matter realistically.

Where tariffs failed, were insufficiently drastic to stop

the flow of imports, Governments tried other expedients. Anything to reduce import trade and exclude foreign goods. Anything to prevent other countries getting the means to meet their debts.

These expedients were still largely ineffective, even in giving a country enough foreign currency to buy raw materials from abroad. So a policy followed of defeating other countries' tariffs by selling goods abroad at any price whatever, by subsidizing the seller in his own country's internal currency for the loss he makes in the transaction. The foreign currency so secured was taken over by the Government in exchange for the full price in home currency.

What can be the end of financial and economic war based on such a crazy foundation?

This is the pass where we find ourselves. Currency wars. Clogged markets. Whole nations bankrupt. The major part of the world groaning under appalling poverty. Under-nourishment has become a commonplace in the reports of medical inspectors of British schools. Yet coffee and wheat are burned. Cotton is ploughed back into the land. Fruit is dumped over the sides of ships in the Mersey. Herrings are thrown back into the sea. For want of consumers, rubber, tin, copper, and a score of other basic materials are being restricted in output.

Poverty amidst plenty. And another world war in the offing. A.R.P. a topic of daily conversation.

All because of the world's inability to deal with that plenty. All because we have failed in distributing the wealth of this manufacturing age. All because of lack of co-operation, due to sectional and vested money interests —because we regard money and not the production of goods as wealth.

We burn wealth. We smash and scrap machines—the

source of wealth. If the nations of the world piled in one huge heap all the bonds, war debts, loan receipts, and so on that to-day represent nothing but the paper and ink of which they are composed, and burn them, they would be doing something really constructive and really capable of solving the problem.

Two-sided agreements between States—bilateral contracts—have everywhere taken the place of freedom in trade. These are agreements between two countries in which the goods each shall buy or sell to the other are clearly defined and restricted. They are a still further step in commercial atrophy.

To appreciate to the full the absurdity of the agreements, one might visualize English counties being reduced to such terms with one another. Herefordshire and Gloucestershire, or the Isle of Wight and Cumberland, carefully reciting what each might sell to the other.

At a recent conference an instance of a bilateral agreement was given. A certain country wished to make extra-special concessions to another for importing cheese. It could not do so by giving it preferential treatment without breaking a number of agreements it had with other countries, promising each of them that they should have the advantage of the most favourable terms offered to any country—what is called the "most-favoured-nation clause."

To avoid breaking their agreements the country offered to allow a certain class of cheese to come in at a lower duty than other classes. But this cheese was to be from black cows, grazing on pasturage over a thousand feet above sea-level.

This is the state in which the world has got. These are the sort of agreements that are being made to-day.

They do not create new trade. They merely shift trade

from some third party, which proceeds to redress the balance elsewhere.

Britain makes a trade agreement with Denmark, binding her to buy a million more pounds' worth of goods from us. She does so—and buys a million less from Germany.

Germany loses that million and proceeds to cut us out of several markets with the million pounds' worth of goods we stopped Denmark from taking. We conclude a bilateral agreement with the U.S.A. which not only perpetuates discrimination but is antagonistic to trading conditions that we are at the same time discussing with other countries, such as Roumania.

Bilateral agreements rob Peter to pay Paul, whether regarded from an internal or an external point of view.

The mentality of the Peace Treaty "Experts" continues to flourish!

CHAPTER V

THE PROBLEM BEFORE US

(i)

For a doctor the first step towards the cure is a correct diagnosis of the disease.

No medical man would think of treating a bruise without ascertaining whether it was a mere knock or the outward sign of a broken bone. A stomach pain may be indigestion or flatulence, a duodenal ulcer, appendicitis, or a dozen other things. Unless prescription is preceded by diagnosis, only the symptom is tackled not the cause. And the result may well be fatal.

The scientific method, in fact, collects the facts, relates them, one to the other, sifts and arranges them, and deduces a logical conclusion. Amateurs are not invited to make the decision; their opinion would not be useful without analysis. Amateur efforts may, on the contrary, be most dangerous, like some patent medicines and quack cures, none of which could stand up to an analysis.

But in the economic world the reverse is the rule. Effects are taken as the core of the problem and tackled as they arise. Each economic ulcer is treated individually, driven under the skin, only to reappear somewhere else, because the poison is still in the system.

And the treatment too, such as it is, is not decided upon by those engaged in daily experience with the problem involved. The "experts" are civil servants, trained in an antiquated school of thought, guiding our political leaders, many of whom are with no training whatsoever for the task. Those blind with age are often to be seen leading

those blind from birth. The Peace Treaty is an illustration.

Is there any real difficulty in diagnosing the shortcomings of our economic system?

M. Van Zeeland was afforded extraordinary facilities by several Governments to investigate the disorders of our economy. He is a man of wide experience. Forty-five years of age, he began life in the National Bank of Belgium; at the age of twenty-nine became first its Secretary, and later one of its three directors. In 1928 he became a professor at Louvain University, where he founded the Institute of Economic Sciences. He has considerable and varied business as well as political experience. On page 31 of his report, he summed up our troubles in forty-nine words:

> "On the one hand, a general interest, evident goodwill, a definite desire to collaborate in a general action directed toward the development of international trade; on the other hand, very great reserve, as soon as it comes to the question of actually embarking upon the stage of practical solutions."

Why is this so?

Because those who met to discuss the problems facing our world were mainly civil servants, steeped in their old ideas and narrowed by their academic philosophy—pedagogues like banker Norman but without his frankness.

Perhaps they were politicians, untrained, afraid to open their mouth lest they put their foot in it, following their Party Whips blindly, or the "glibbest," most plausible "expert."

They spoke of "co-ordination" and "collaboration." But they did not do so in good faith. They did not believe in these things only so far as others accepted their theoretical views.

(ii)

Some two years ago the writer was privileged to listen to a very important speech. The speaker, who has since died, was in this country as an ambassador. He spoke in deadly earnest, and he pleaded for real co-operation in developing world trade and for us to abandon an attitude of passive resistance, of mere lip-service, to these things.

Following that speech a luncheon was arranged in London, for a group of men, from Germany, U.S.A., and Great Britain, all of acknowledged status in their respective countries and selected because of their close and active connection with world trade. There was no financier, economist, banker, or politician among them.

These men were, in modern guise, in our present-day field of endeavour the natural successors of the old Merchant Venturers. They could talk of conditions in China or Peru, in West Africa or the Bermudas, with authority. They knew every part of the world from daily practical and personal contact.

The objects of the luncheon and the meeting were to see if any general agreement could be reached as to the nature of the sickness from which the world was suffering.

The following extract from the documents that preceded the luncheon is illuminating:

"Notwithstanding a World Import and Export Trade reduced by two-thirds, it is obvious that consuming power remains, not only unimpaired, but largely undeveloped. This reduction—common to all countries, indicates mutual interdependence, and shows that the sporadic and isolated action of nations have failed to do more than aggravate matters."

"Nations have adopted the principle of negotiating individually, resulting in so-called 'protective' measures which have produced world chaos."

"Almost daily, principles are created to 'balance' condition

between two units, invariably resulting in a progressively lower level of trade. These so-called 'cures' are negotiated or imposed through permanent officials, whose national duty has been to watch their nation's interest. Trained in an atmosphere of past Economics (which have failed us as the Ambassador remarked) out of touch with the daily commercial reactions arising from the application of a diversity of theoretical dogmas—such officials are at a sad disadvantage, and world trade still further depreciates."

Strange as it may appear to those who are accustomed to international business gatherings, at that attempt to probe matters at all deeply, there was complete unanimity on all major points. These were duly set down as follows:

REASONS, AGREED, FOR FALL IN WORLD EXPORT AND IMPORT TRADE

(I) *Attempts to reduce imports.*

(*a*) By balancing external trade with various expedients, such trade being "out of balance" by reason, among other causes, of payments called for on external indebtedness.

(*b*) To implement political promises, made to meet popular but uninformed clamour.

(*c*) As an emergency expedient, tending to become permanent by force of circumstance.

(*d*) The establishment (to quote one instance) of uneconomic industries in essentially "Produce" countries, by the use of discriminative duties—such action failing to recognize that unemployment, whilst reshuffled, may increase, owing to the relative shrinkage of the staple exports, compared to reduced imports.

(*e*) The system by which countries endeavour to equalize their trade balances by reduction of imports, it not being recognized that a reduction of imports invariably means a similar reduction in exports.

(II) *Quotas, Import and Export restrictions, Export bounties, Exchange control, etc.*

Diverse regulations, mutually antagonistic, and so in-

volved, numerous and restrictive as to have severely hampered the centuries-old method of creating trade, e.g. the activities of Merchant Adventurers to secure business, based upon the freest possible exchange of goods.

(III) Bilateral agreements, each with an individualistic national background, having the logical results that 137 countries noted by the League of Nations must, if they are all to protect their trade, make $137 \times 136 \div 2$, Trade Agreements: 9,316 Agreements.

(IV) The failure of existing world financial methods to take into account the disastrous results of financial exchange speculation as applied to external currency.

(V) Complete failure of all countries to recognize:

(*a*) That as external trade is only possible by international goodwill and co-operation, any attempt to deal with it as a national issue not only retards progress, but as history proves, creates the seeds of war.

(*b*) The stultifying results, at any world trade conference, of countries' representatives only supporting proposals favourable to their own country—an impossible line if it be agreed that world trade is international

(VI) The attempts to deal with old debts as a preliminary instead of an ultimate issue arising out of the development of increased new trade.

Business men of three nations put their finger on these causes for the fall in export and import trade throughout the world.

(iii)

What do we need, we citizens of the world, if we are to be cured?

We can, perhaps, summarize our needs in the following eight points. They are the obvious corollary to the very complete diagnosis drawn up above:

(1) Pre-war freedom of trading.
(2) A basis on which world trade can be increased and balanced.
(3) Non-interference in each other's domestic affairs.
(4) Complete settlement of the impossible situation at present created by international debts.
(5) An end of trade restrictions, quotas, high tariffs, and other similar expedients.
(6) A settlement of the colonial and emigration questions.
(7) A policy, on a world scale, for the development of backward areas and the production and distribution of raw materials.
(8) A currency policy insuring the end of international speculation.

Under external conditions of trade, freed along these lines, the internal situation, as far as this country is concerned in particular, will be able to develop along lines far more in accord with modern demands than at present. Without them we must inevitably continue along the path of decline.

No old-established business welcomes a young and virile competitor opening up in rivalry, with entirely new methods. There is disapproval. Aloofness. But this will have little effect. Aloofness, in fact, will be an asset to the energetic youngster.

Before long the balance-sheet of the older concern will begin to show evidence of battle. At last, if not too late, a new and more adaptable manager will be appointed, one more receptive to modern ideas. He will adopt the best points of his firm's rival and retain the best and most useful lessons of past experience. He will add to this, maybe, newer ideas still, that the competitor has not yet

hit on—and the older concern can be pulled round, not only saved from bankruptcy, but actually the better for the jolt it has been given.

Our national affairs must follow the same course. It does not matter whether or no we agree with our competitors, their ideas or their methods. Closing our eyes or general disapproval will hurt no one but ourselves. Our apathy to the lesson foreign countries can teach will not effect them internally, but will help them in their external competition with us.

Their home policy is their own affair.

We taught them first to walk, when Britain was the workshop of the world. If we are now too proud to learn from our star pupils, who have shot ahead of their old master, then our declining prestige must be our own fault. Our pig-headedness may be the cause of our relative collapse and of lowering our standing in the view of the world.

Internally we want six basic conditions:

(1) Subsistence for all.
(2) Work on demand, for those wanting it.
(3) Pensioned leisure for past workers who have grown old in the country's service.
(4) Full development of all possible resources.
(5) An internal measure of value, unvarying in purchasing power.
(6) A policy to control the products of foreign cheap labour and "dumping."

The detailed proposals that are set forth in the remaining chapters of this book are not claimed as new, and they are certainly not revolutionary in the sense of untried. Practically all have had and have their advocates. Many

have been experimented with in one place or another, at some time or other.

But all such advocates and experiments have hitherto applied them piecemeal.

They have never been considered as a whole. The attempt here is, after diagnosing the world's illness as a complete whole, to draw up a considered skeleton scheme, the parts of which may not be novel, but which deals with many facets. That has been my aim.

In deciding to deal with the matter in this way, the writer was much influenced by a phrase of the late Sir Basil Blackett, at the time Director of the Bank of England, in *Planned Money*. He referred to the absence in books read by him of any co-ordinated plan that took into account the reactions of the plan on issues other than the one advocated.

It is simple enough to deal with one issue if all others are ignored or passed over with a fleeting mention. It has been the writer's endeavour to tackle the problem of world trade as a whole, and to suggest a complete solution along the lines of logic, experience, and common sense.

CHAPTER VI

TWO CURRENCIES

> "There is widespread misgiving as to the serviceability of orthodox currency theory and practice in present circumstances and attacks are being launched upon them and upon the responsible authorities from various angles . . . amid a host of criticism there is a singular absence of any reasoned presentation of an alternative programme drawn up with full knowledge and understanding of the many practical difficulties."
>
> SIR BASIL BLACKETT

(i)

ENOUGH has been said in the first part of this book not only to show the dangers of the present unbalanced system of world trade, but to justify a complete change. And this applies in particular to Great Britain.

In his reservation to the report of the Macmillan Committee, of which he was a member, Sir Walter Raine said:

> "The period since 1914 has shown the British people that the British system, which has worked so smoothly for them, requires revision; in fact, bitter experience has revealed the fact that had we taken earlier notice of some of the disadvantages we would not have found ourselves in the position we are to-day . . . we must in the light of recent history, adjust ourselves to the altered conditions, or the alternative will be that we shall be left behind."

And again, Sir Basil Blackett has pointed out:

> "Many of the causes of present distress can be removed only by international co-operation. Yet to wait till effective steps can be taken by international action would result in mere futility."

Under a universal Gold Standard, differences between nations' trade are assessed in the books of bankers. These differences are settled by shipping gold from one country to another. To keep this system working, the whole world strives and manœuvres to get gold.

Under the present Paper Standard, currencies are taken largely on trust. A million, more or less, in circulation is not noticed, just as a quantity of spurious chips introduced into the Casino at Monte Carlo would not be noticed until the final settlement at night.

Is there any way in which the absurdities, the chaos, and the suffering that these currency systems imply can be got rid of short of scrapping the whole business? Is there any way in which a perfectly balanced and continually expanding world trade could be achieved?

There is!

It could be secured by a country having an external currency wholly divorced from its internal currency. And this is the main necessity at the present moment.

Such an ideal is not new. Plato, in fact, described an internal currency as "of value among the members of the community but of no worth among the rest of mankind." He further explained that "any private traveller returning from abroad with foreign coin is compelled under penalty to sell it to the State in return for domestic currency at the current rate of exchange."

Soddy claims, in the *Role of Money*: "A country's currency is a claim only on internal goods. . . . Private international speculation must stop, and external currency come under control."

Lord Melchett came to very similar conclusions in *Modern Money*: "Then, let us for ever do away with this inadequate economy, based on antiquated notions," he writes. "I am sure the wit and need of men will devise

something better. . . . We are embarking upon an industrial age, and we must alter our banking and economic system to suit the necessities of industry."

Later he goes into some detail and writes:

> "It follows that no country should allow the existence of exportable paper obligations that cannot be fulfilled. To permit their existence, as the present system does, is to build a house of cards that must go higher and higher until it falls of its own inherent instability. In other words it is impossible to sustain top-heavy international currency for the convenience of international financiers."

The Macmillan Committee recognized the advantages of such a system, but dismissed it as an impossibility, on the grounds that it would be difficult to apply. What a reason! This, however, need not perturb us nowadays, as other countries have shown us how these difficulties can be met.

The credit for a complete scheme somewhat along these lines belongs to the London Chamber of Commerce. The following principles summarized here were adopted after the subject had been considered by a Special Committee in 1932:

(1) Each nation should have its own national money.
(2) The value of this money should be kept stable, based on an agreed Price Index.[1]
(3) The international exchange value of these national currencies should be fixed, permanently and by

[1] Price Index: A way of calculating approximately the variations in the value of money and/or prices. A number of goods are selected—clothes, shoes, foodstuffs, etc.—in certain quantities and the current wholesale price of each is put down. These are added together and the total, for a given date, is taken as 100. This is usually 1913, 1924, or 1929. Variations in prices from day to day and year to year can then be shown by a rise or fall of the index number, as percentages above or below the given date.

agreement, between co-operating nations, regardless of gold.

(4) There should be no international money.

(5) All international trade should be done through Bills of Exchange, negotiated as at present by the Banks, and discounted by them with the National Central Bank.

(6) No private individual or institution should be able to buy, sell, or own foreign currencies.

(7) All foreign currencies acquired through sale of goods abroad or as interest on foreign loans, should be held by the Central Bank. Individual citizens should receive in exchange quantities of their own national money at an agreed ratio.

(8) There should be a Central Bankers' Clearing House, in no sense an international bank, as a common meeting place where Central Banks of co-operating nations could exchange the claims on each other that they held, and cancel them out.

(9) The object of each nation should be to keep its imports, visible and invisible, in approximate equilibrium with its exports, visible and invisible, over a period of time. Each nation would, therefore, be as much interested in its import as in its export trade. International trade would become an exchange of goods and services between nations to mutual advantage, instead of a desperate struggle by each national unit to cut its prices and undersell all others, putting them into the position of debtors, unable, because of this, to meet their just obligations.

Enough has been said, I think, to dispose of the view that such proposals are Utopian.

What may have appeared ideals, impossible because of the difficulties in the way, at the time of the Macmillan Committee's report, have now become the considered policy of certain nations and the haphazard practice of a number of others. We will discuss these later in the chapter.

(ii)

The ideal of a balanced external trade is defeated by mixing domestic with external finance. In countries with free currencies speculation is rife, with highly detrimental results.

A separate currency would cause all these things to disappear.

Such a principle could be inaugurated by Great Britain alone, or in association with the rest of the world if that were possible.

Great Britain is the greatest consuming nation and thereby the main market for the produce of most countries. Under a two-currency system all export and import trade with this country would pass through the Bank of England, established as a Public Utility Corporation.

Let us see how this would work. We must, first of all, appreciate that if we had two currencies and paid "British External Currency" for goods or services to someone abroad, it would result ultimately in an equivalent export from this country, inasmuch as the money, if it was to be of any use, would have to be spent here, directly or indirectly, by the foreigner to buy British goods.

Similarly, if we received foreign "external" money for our goods or services, that would mean an ultimate import inasmuch as if it was to be of any use at all, this country could only use it by buying something from the foreign country with the money received from them for our goods.

When you go to Switzerland for winter sports you would pay your hotel bill in "British External Money," thus creating the grounds for a British export. Your payment with such currency would, in fact, represent a promise by this country to pay for what you had consumed, with goods from this country. The Swiss, in other words, must use that money, and that means they must directly or indirectly buy our products to an equal value. In giving the money we have given an undertaking to accept it back from them in return for such goods as they purchase from us.

The Bank of England would act as an issuing and clearing house for all external transactions.

By "issuing" we mean that it would issue External Currency against the receipt of goods whenever a purchase was made from abroad. In the same way, it would accept a return of this export currency for the purchase of goods from this country.

In these conditions Great Britain could only buy goods with External Currency, giving the seller a claim on our goods or services, and being of no other use whatever.

British External Currency would have a cancellation date of, say, three years, and could circulate externally among other countries.

Turkey might sell tobacco, for instance, to Germany and be quite willing to accept from Germany in exchange British External Currency. That would be because Turkey wished to buy British goods.

It would not worry Great Britain if this "External Currency" was not used within its three years' validity to buy goods from us, as that would mean that we had been made a present of goods to the extent of the unused currency. We would have received that amount of imports for nothing.

Such a principle would insure balanced trade. And such a balance would not necessarily be bilateral only, as can be seen by the illustration of Germany and Turkey. The tendering of External Currency in exchange for goods would be a principle open to any country to adopt. The basis would be that such currency was a claim on such country's goods and services. Nothing else. The balancing principle would not be interfered with as the currency could only be redeemed finally by tendering it to its home of origin in exchange for their goods or services.

If Japan, for example, decided to pay for goods that we have sold her, in Japanese External Currency, instead of paying us with any of our own External Currency which she held, she would be sacrificing her right to some of our goods and services while giving us a claim to some of hers. She would hardly do this until she had used up all of ours in her possession.

However one looks at these transactions, it will be seen that the result would have to be either a balance between the world and Great Britain in import and export trade, or, if universally adopted, a world balance of trade.

A two-currency system of this kind would, however, have far deeper consequences than this. It would lead to a radical change in world mentality in regard to duties and protection, for instance.

Let us take the Argentine. Suppose she had sold Britain 14 million pounds' worth of goods for which she had received British External Currency. She would then have a claim on our goods. She would want the whole value in return. But supposing she had discriminatory customs duties that prevented her importing goods to the full value, then her own actions would prevent her being paid in full. Under these conditions, for self-interest, she

would at once adjust her trade barriers, or be let in for giving us goods for nothing, or nearly nothing.

While this illustrates the broad principle, the whole situation would be simplified if the world agreed to the system by the establishment of a World Clearing House.

Such a clearing house would be in no sense of the word a bank. Its only work would be book-keeping and accountancy, balancing the claims of each country. It would issue regular returns, showing the position of different countries in regard to the rest of the world. Each country would have the necessary information in this way to redress any lack of balance.

If there was too much of Britain's External Currency in the hands of other countries, these countries would reply by large-scale buying. Next month the returns might show that they had over-bought; Britain would then have to buy to redress their balance. You would create a "buying mentality" as a prerequisite to selling. A complete reversal of present-day psychology.

Very little alteration would be needed in the methods of dealing with imports. Commerce would continue along much the same lines.

In transactions for importing, say, Spanish produce into Great Britain, the Spanish seller would hand the documents and invoices to his bank, which would pass them to the Spanish Central Bank. The Spanish Central Bank would hand them over to the British Central Bank in exchange for "British External Currency" to the value of the invoice. The British Central Bank would then hand the documents to the British buyer's bank, debiting them with the account in British *Internal* Currency. The buyer here would then receive the documents from his bank and a debit for the cost in Internal Currency.

A British exporter would conduct his trade with a

foreign buyer very largely in the present way. He would hand documents and invoices to his bank, which would hand them to the British Central Bank. The Central Bank would credit his bank with Internal Currency and then collect a similar amount of External Currency from the Central Bank of the foreign buyer.

Bills of Exchange would still function, all payable, with the appropriate documents, through the Central Bank.

Forward transactions would be confirmed by the Central Bank of each country, which would eliminate bad debts. And here it should be emphasized that bad debts when created externally are not, as is often assumed, merely the unfortunate loss of an individual firm, but are the loss of the whole community through the individual. Products have left the country and nothing has come back in return.

Shipping freights would be payable by foreign shippers through their Central Bank in External Currency. In a home port a home shipper would accept Internal Currency; in a foreign port, External Currency, which he would exchange for Internal Currency on returning home.

Subsidies and other artificialities would cease to be of value. Freight paid to a foreign ship-owner, an import by us, would have to be balanced by his purchase of goods or services from us with the External Currency he received. A subsidy to lower the freight would only mean that such freight would secure less goods in return.

Tourists would obtain External Currency from the Central Bank through their own banks. This would have an exchange value in every country, inasmuch as it was a claim on the goods and services of the issuing country.

External speculation would be finished, as Internal Currency would be useless outside the country of origin, and External Currency would have to pass through the

Central Bank. International crooks would find it impossible to transfer their currency gains to another country. The illicit drug traffic would come up against exceptional difficulties and be largely closed.

At present foreign investors can create considerable upheavals in the financial and commercial system. At the time of writing many are buying and hoarding gold.

When one buys shares in, say, an American business concern, one must first buy dollars to make the purchase with. And when you use those dollars for this purpose—investing in the U.S.A.—you are preventing British producers from receiving goods in exchange for those they made, represented by the currency you have transferred to America.

The removals of fortunes by foreign investors in this way would, except as will be explained in Chapter XVI, be no longer possible under a two-currency system.

(iii)

Some form of two-currency system has already been adopted by a number of countries in one way or another.

Russia works a two-currency plan. Her external currency is directed entirely towards securing a claim on the goods of foreign countries by exchanging her own products for their currency. She uses these foreign currencies to buy raw materials and products from abroad. They balance automatically. She becomes, without needing duties, sole arbiter of what can and what cannot come into the country. Neither exchange rates nor speculation can trouble her.

To-day she has no wish to export, as her internal consumption is greater than her productive capacity can

meet. She exports only to allow herself to import such essentials as are not available at home. In time they will become available, and she will be independent of other countries. She has every type of mineral, and climatic variations make it possible for her to grow almost any kind of raw material.

By a different and more involved route Germany has arrived at a similar result for the conduct of her external trade. She needs foreign currencies to secure raw materials not available at home. Unlike Russia, she is not and never can be self-supporting. She must have rubber, wool, copper, nickel, and a vast number of other materials with which Nature has not endowed her.

A great manufacturing nation, Germany, like Great Britain and Russia, owes a great deal more than she can pay. This means in reality that there is a set of figures against her, to balance which she would have to work night and day for export—importing nothing until the amount exported equalled the prodigious sum said to be owing. This amounts, according to the *Frankfurter Zeitung*, to about RM. 20,000,000,000, or £1,000,000,000 at par.

Russia, in turn, is said to owe Great Britain alone as much as £623,000,000, and Great Britain owes U.S.A. £900,000,000. All of these debts would have to be paid in exactly the same way. By exporting a tremendous amount of goods and importing nothing. Obviously impossible.

Germany gets out of the difficulty by saying—as Russia says to Britain and Britain says to U.S.A., and so on—"Let's forget it." Various creditors, of course, do not agree. But in practice Germany, Russia, and Great Britain do, in fact, forget it—for which those who can visualize the outcome of any alternative are truly thankful.

The figment of debt, however, is still allowed to poison the atmosphere of world relationships.

By a series of complicated barter agreements Germany has attempted to demonstrate the principle of balanced external trade. She supplements her agreements by a series of external currencies, such as "Orange Marks," paid for oranges, for instance, that can only be used to buy German goods. She handles her invisible export trade in the same way; tourist traffic, for example, is fostered by giving twenty marks in exchange for £1, a compared with her normal rate of around twelve. This allows her to secure foreign currencies for spending abroad.

Germany learnt during the inflation after the war that gold is not wealth. Pound notes and share certificates are only claims to wealth, and wealth is but production.

"The most valuable metal, the most indispensable, excellent, and reliable metal that there has ever been or ever will be is the sweat that gathers on a man's brow. Without it, gold and silver are of no value whatever" (HANS WANTOCH: *Magnificent Money Makers*. An anonymous writer to King Charles in 1680 is quoted).

During Germany's inflation, men who held millions of marks in paper fell from positions of fabulous wealth—in the accepted sense of the word—to paupers in the course of one night. Those who held real wealth in the shape of food or clothing or any real goods or services or plant or land that would produce goods were the real millionaires.

(iv)

Modern capitalism owes its rapid and gigantic growth, its unlimited possibilities, directly to the introduction into

Great Britain of Arabic numerals in the sixteenth century.

Before this, modern book-keeping and accountancy were impossible.

And the writer believes that we may yet find in book-keeping and accountancy the solution of our present troubles and the key with which the door to an Age of Plenty may be unlocked.

It is the misuse of a money and book-keeping system that is the danger for Capitalism. We have to destroy the ability of the financier on the one hand to use our book-keeping system for personal profit at the public expense and, on the other hand, to prevent the mortgage of the future by a narrow conception of "debt."

After all, there is no reason why the creation of credit and the loaning of funds should be made subject to interest or the tying up of the future. The idea of Debt, Public Debt, and National Debt received a rude shock when the story of the building of the Guernsey Market-place came to be told. The story, though well known, can bear repetition.

The facts, briefly stated, are:

> The island of Guernsey, which has its own Parliament, on April 12, 1815, appointed a Committee to consider a scheme for enlarging the market. The Committee recommended the issue of State notes to the amount of £3,000.
>
> The records show that the Meat Market was built, without any loan, but merely by the issue of £1 notes, created for the purpose, which were gradually paid off with the rents that came in.
>
> Guernsey said, in effect: "We propose to build a market. To build it, we will issue £1 notes with which we will pay for labour and buy material.
>
> "Those who use the market will pay rent. As the £ notes come in, as rent or taxes, we will destroy them.
>
> "Ultimately, they will all be destroyed, and Guernsey will own the market" (Précis from H. D. MCLEOD'S *Credit*).

"As the report to the committee reads:

" 'Thus at the end of ten years, all the notes would be cancelled and the States would be in possession of an income of £150 per annum, which would be a return to the £3,000 spent by them. Looked at from all sides, the scheme shows nothing but the greatest advantage for the public and for the States . . .' " (NORMAN ANGELL, *Story of Money*).

The system of running municipal life without debt has been followed in certain U.S.A. cities. Kalamazoo made a successful experiment along these lines.

These experiments show that the debt system as at present understood is not a necessary part of the Capitalist System.

The period of Arabic numerals, Capitalism, and Accountancy has conferred many benefits upon the world. The defects are not impossible of removal.

A muddled conception of debt, interest, credit, and so on did not prevent an unparalleled world expansion in the early days of industrialism, when there were more people wanting to buy than there were goods to go round.

But it is impossible to-day. The same conceptions just do not work in these days; it was not right in the early days, but the situation was not then as serious as now. Nevertheless, the words of a critic, one Charles Jones, writing over a hundred years ago, would describe our present position admirably:

"The monetary system of Europe, like the feudal system of government, under which it was adopted, and to which it was well enough suited, is worn out; it is no longer suited to the genius or the habits of Mankind, and it is incompetent to his present purposes and wants.

"This great truth is, at the moment, and has been for the last fifteen years, proclaimed throughout the world. All nations are suffering under this pressure of pecuniary difficulties; and their difficulties are almost exclusively pecuniary. The simple proof of this important fact lies in the ability of all nations, to produce

much greater quantities of all the good things which conduce to and, indeed, constitute the comfort, the enjoyment and happiness of life, than they ever could do at any former period. And yet there is hardly a nation upon the earth which is not in a state of distress. How is it, then, that amidst all this general profusion of wealth there is almost universal distress among its producers?" (*Plan for Realizing the Perfection of Money*, 1832).

Before and since these words were written we have experienced the following convulsions, which are an adequate comment:

"*History of the £ Sterling*, by Feaveryear, describes crises in 1763, 1772, 1783, 1793, 1809, 1811, 1815, 1821, 1825, 1836, 1839, 1846, 1857, 1866, 1890, 1914, 1921, 1929. So far as I can see, this is all due to the fact that no real change has been made in our idea of money since the industrial system commenced" (MELCHETT, *Modern Money*).

The present system has made possible a fine organization of social services. But its defects, and the present method of managing trade by the State, leaves us at a disadvantage in competing with countries where the standard of living is comparatively low and social services are almost entirely lacking.

Capitalism created and is largely to be identified with the scientific age and the machine age. It is also the age of popular education, community health services, of social services generally.

Yet these things seem to have conflicting results. The machine age created an abundance of goods, with less labour. At the same time the social services resulted in higher costs, that have made us unable to compete with countries that are less advanced in this direction, but that now use the same scientific methods and machines as we do.

So far has this scientific production progressed that only a little of the available labour is now needed to

produce all the goods we require at our present rate of peace consumption.

Having used science to invent machinery to abolish the need of labour, we now regard unemployment as a curse. Because those who were once needed for production can now be dispensed with and are no longer allowed by us to produce, we refuse to give them any of the plenty that is being produced without their help, and of which we have more than we want. Eimar O'Duffy describes it:

> "I want you to carry in your mind a picture of several millions of rational men begging for what they don't want (employment) and unable to get what they do want (of which there is plenty) because there is none of what they don't want available."

(v)

Some people believe the best way to overcome this economic paradox is to abolish machinery, and Mr. G. K. Chesterton, a great poet and writer, but a very poor economist, suggests that we should do that. The Distributionist League, which he founded, calls on us to return to hand labour and to give up the advantages human inventiveness and the wonder of industrialization have won. We are to sacrifice the abundance we can now create. In other words, they are unable to solve the problem and suggest a retreat to the Middle Ages.

Others, like Mr. A. F. Stewart, of the Dundee Chamber of Commerce, deplore the use of machinery in India, for example, to compete with us.

In this respect these theorists have the same outlook as those who burn crops and pray for drought. They are like those who would urge presumably an end to the manuring of the soil so as to prevent it giving a good crop.

The writer, on the contrary, believes that we should assist in every way an increase of machine production and labour-saving machinery in industry and in agriculture, and in every part of the world.

In this way, with a proper organization of distribution, we are not creating unemployment but leisure and a higher standard of living for everyone. Increased output will no longer be followed, like its own shadow, by over-production, a crash, and a period of closed factories and soaring unemployment figures.

By a reorganization of our monetary system and a different attitude to wealth, to usury and interest, this can be made possible. It can be made possible if we adopt a two-currency system with External and Internal Currencies quite distinct.

CHAPTER VII

INTERNAL CURRENCY AND PLANNING

(i)

HOW would a two-currency system function? To appreciate this fully one must make a rapid review of our present banking system and the banker's place in commerce.

In Chapter II we gave a short account of the haphazard beginnings of British banking, but to-day banking is much bigger than this. "Transactions between different nationals are not settled by the transference of cash," says Eimar O'Duffy. "They are settled in bankers' books, figures representing money being set off against other figures also representing money. The final accounts are balanced, if necessary, by gold or securities."

The bank failures of the last century were the "growing pains" of the present system which, looked at as a whole, cannot be regarded as anything by ill-conccived.

They were private undertakings, founded to make a profit out of the community. If they failed, the whole community suffered. "When bankers begin to fail," says McNair Wilson, "farmers refuse to bring food to the towns, and townspeople starve."

The method of the banker in making his profit is lending money the bulk of which does not exist. The peculiarity of his trade, however, is the power that it gives him. But this power has not led him or helped him to control currency and keep it stable. Bankers hold a large part of the responsibility for trade cycles that are, as we have seen, the results of alternative inflation and deflation.

These changes in the value of money have an immediate and direct effect on the standard of living of wage earners. The whole community dances to the tune created by every financial chaos. But, come what may, good or ill, the bankers still make their profit.

The money deposited by you in the banks is multiplied many times over by them in loans. In many cases these loans may go to your competitors to help them buy new machinery that will assist them in putting you out of business. This danger has been seen by many writers and authorities, but has never been faced.

Lord Bradbury, a member of the Macmillan Committee, stated in the report:

> "It is very desirable—it may even in the remote future become vitally necessary—that idle deposits in the Joint Stock banks should be reduced to a minimum and that the total deposits of these banks should be confined, as far as possible, to the necessary circulating medium of trade and industry."

D. C. Coyle puts the position in *Brass Tacks*:

> "The first stage in using surplus earnings to bring on ruin is to deposit them in the bank during the early stages of prosperity. The banker naturally lends the corporation's money to one of its competitors for expansion of capacity."

The present banking system has become a sort of tapeworm in the constitution of the community, absorbing nourishment from every part of the system. Nobody knows quite how much they really make out of the community or to what extent we are indebted to them for allowing them to handle the national finance. Bank balance-sheets are not very informative. Eimar O'Duffy in *Life and Money*, *à propos* of bank balance-sheets, has put it like this:

"When Bank A's sacred day has passed it lends to the Money Market that part of its Bank of England balance which is no longer required for publication purposes, for the Money Market to pass on, as promptly as possible, to Bank B, whose sacred day has arrived, so that a Bank of England balance, which belonged to Bank A's reserve at dawn, has put in a public appearance before sunset, as part of Bank B's."

In the first year of the war the Government issued currency notes on its own account, without the assistance of the bankers. It was an "emergency measure," of course—but why?

Sir Walter Leaf was Chairman of the Westminster Bank at that time, and his comments in *Banking* are a piece of delightful frankness, very well worth recording:

"On the outbreak of the war a new fiduciary currency was established by the issue of notes through a department of the Treasury. The amount and manner of the issue was left to the absolute discretion of the Treasury. This was essentially a War Loan free of interest, for an unlimited period, and as such was a highly profitable expedient from the point of view of the Government."

Such a "profitable expedient," however, struck at the roots of bankers' profits.

The Cunliffe Committee was set up by the Government to decide what privileges should be enjoyed by bankers. It was, perhaps, a very suitable committee to decide this question, as its members were almost all of them bankers. The not unnatural findings of such a committee were that this "profitable expedient" of the Government should be brought to an end and the issue of notes given back to the bankers.

And the highly logical practice of the Government, representing the community, issuing money for the use of the community, was brought to a stop. It was handed back to a private concern so enabling it to continue to

make a private profit out of the community. This, for all our highfalutin talk of democracy, shows how well inside the pocket of the banking system the Government was—and is.

Notwithstanding these slight slips in the past, the banks have built up for themselves on the whole a very fine organization and a respected position in the nation's life. Banks of one kind and another, despite their many anomalies, are indispensable to the full functioning of the country's economic and social life.

On the controversial platforms of political spokesmen one very frequently hears demands for the nationalization of the banks. Exactly what this means it not quite clear.

The nationalizing of banking does not necessarily mean the adjustment of the system.

"Nationalize the banks?" asks Eimar O'Duffy. "That may or may not be a good thing. But it is quite pointless until it is first decided what we are going to do with the banks after we have nationalized them. It is not the ownership of banks that matters, but the use that is made of them."

And again, "Nationalizing the banks . . . is quite futile without a radical change of banking policy based on the recognition of the age of plenty; and any attempt to change that policy on unscientific lines (say, by inflation or the issue of insufficiently secured credits) must be disastrous."

What is really meant, probably, is that only the nation should issue currency. It is from this angle that I approach the subject. The Government or the State must be the sole source of issue. "He (the banker) should be an Accountancy Manager," says Frederick Soddy, "reimbursed by a charge." This is indispensable for the

proper working of a two-currency system with an Internal and External Currency quite separate.

(ii)

Certain financial and economic phrases need to be properly understood for a full understanding of banking and its place in national life. Particularly such phrases as "Money Quantity" and "Money Velocity." These deal with the quantity of money in circulation and the speed with which it circulates, neither of which are, of course, accurately ascertainable.

It is little realized that failure to pay what you owe promptly stops the "velocity" of money and thereby reduces trade and employment to an incalculable extent. Pay when due—even by a bill which can be discounted—and you assist the flow of trade.

We need to understand that "any normal quantity of money will go on distributing goods and services for ever if the price is stationary."

At the same time we must realize that it is desirable that "as money is used it should be at once released to repeat the process. . . . If a particular ten-dollar bill is spent twice a year it makes an income of $20 a year. If the same bill is spent twelve times a year, it makes an income for various people totalling $120 a year" (COYLE).

Let us take an example. Four men are left £10,000 each.

Mr. Jones opens up a business on a sound basis. By well-thought-out systematic control of manufacture, of his stocks and of his accounts, he manages to make that £10,000 of his do £100,000 worth of business a year. He thus benefits employment to the extent of £100,000 a year, inasmuch as he has circulated £100,000 which

must all go into some form of productive or serviceable employment. If he makes profit and invests it in industrial shares or his own business, it is the same thing.

Mr. Brown also opens a business but he has no system. He does not understand business as well as Mr. Jones. His capital only turns over four times a year and makes a business year of £40,000. His concern fails, therefore, as compared with that of Mr. Jones he has slowed down the "Money Velocity" and employment to the extent of £60,000 a year.

Mr. Smith was not an adventurous soul. He decides to hoard his £10,000. He has deprived the community of the whole of that amount as well as all it could have achieved.

Mr. Robinson, our fourth gentleman, buys American bonds with his £10,000 and thus makes a present of £10,000 worth of British labour, and all that it might do, to America, in return for an annual interest. For which interest, of course, he does no work!

It will be clear, therefore, that the amount of money issued is of not so great importance as its velocity and its management.

Hoarding and foreign currency speculation could upset the best managed currency in the world.

With a closed Internal Currency the Government would, as we have seen, be the sole issuers of currency. This would, of course, be governed by a Currency Commission.

The currency would be issued by the Government against gilt-edged securities held by the banks, insurance companies, and the public. The issue would be gradual and be governed, as suggested above, by a Currency Commission, which would work in connection with a Planning Council, responsible for organizing trade as a whole.

The Currency Commission would be a permanent

body, made up in the main of experts. Its main functions would be:

(1) The maintenance of a stable price-level, at least as far as the necessities of life are concerned. This would ensure that the income value of wage earners and pensioners was stabilized, and assure them of their standard of living.

(2) The issue or recall (by taxation) of currency to keep the country "on an even keel," with the object of keeping our price-level stable and our trade balanced. In this the Commission would be guided by the Planning Council.

The gradual taking over of securities against national money (issued for that purpose) would bring about two very desirable changes in the situation. Firstly, the National Debt would gradually be cancelled and all interest payments on it. Secondly, large sums would be released for investment in industry, and this could be done as rapidly or as slowly as the Planning Council decided was necessary.

Holders of Government and similar gilt-edged stock would be presented with their money. Just that. The loan would be paid off and interest would no longer burden the community. The stock-holder would find his or herself with a large amount of ready cash in hand.

Lord Melchett, in *Modern Money*, made very similar proposals:

"Why not pay off the holders of long-term drafts at interest with sight drafts? The security is the same, and they would have no grievance. Instead of the British taxpayer being forced by the Government to disgorge many millions a year, there would be a progressive reduction of taxation. No additional currency would be required. The holder of £100 of loan would find he had been repaid and that he had £100 at the bank."

Going to the bank to reinvest it, the stock-holder would be told that all gilt-edged investments were being paid up. Only two courses would be left open: on the one hand, to spend the money and so set the wheels of industry turning fast; on the other hand, to invest the capital in productive capital for expansion.

There is nothing very drastic about all this. Between 1929 and 1930 the Government were paying £312,000,000 annually interest on our National Debt.

In 1936–7 this had been reduced to £212,000,000, a saving of £100,000,000 a year—enough in twelve months to build 60 feet deep bomb-proof shelters for the entire population of London. At the time of conversion, which made this possible, it was hailed as a stroke of genius. As a matter of fact, the Government merely put through an arrangement whereby it paid £100,000,000 a year less than before on the money it has borrowed. It was an arrangement forced on its creditors. And a very sound one.

Our proposals, therefore, would mean saving a further £212,000,000 a year and the release of large capital sums which would have to be invested in productive industry.

This currency, being *Internal* and separate from our *External* currency, would have no repercussions on our external trade. But there are further possibilities that would be most attractive.

Our Dock Corporations have to pay heavy interest charges to-day. These are taken into account when dock charges and rates are calculated.

Germany, however, is in a very fortunate position. When the currency depreciation was at its height and millions of marks were worth a few shillings, dock and other

liabilities were paid off in the currency for a nominal amount, a few pence. If the British Government gradually absorbed such dock and other public utility fixed-interest securities and led the way to their disappearance, our ports would again be able to charge as attractive rates as some foreign ports. If all these fixed-charge securities, paying a definite interest, whatever the profit of the concern, were altered to ordinary profit-sharing shares, a similar effect would be reached.

In recent years much shipping has left British for continental ports because of low rates. And the loss to us is far more than the mere loss to the docks. The whole trade of the country suffers.

The German was another method, an unplanned and very painful one, of obtaining the same result.

Our banks, of course, would not contemplate the loss of their opportunities of making profit with any tranquillity of mind; they will have to be accommodated by permitting a reasonable charge to be made for managing accounts and investments instead of taking profits from the issue of money.

Apart from matters of foreign trade, which would be entirely in the hands of the Central Bank, there would still be:

(1) *Current Account Section.*—This would be the management of private accounts at a charge.
(2) *Investment Department.*—This would be a very large department, presenting opportunities for investment in trade to the bank's clients. These opportunities would include a huge number of private concerns and also a number of investment trusts covering such companies. The public companies would still be the concern of the Stock Exchange.

This would end the complaint, so frequently made, that bank finance is only open to big business.[1]

All share transactions, however, would have to be in ordinary shares (see Chapter VI).

Ample opportunities of investment would arise from the work of the Planning Council, and money would be available from the fact that if it was idle it would receive no interest. This would increase the velocity with which it would circulate.

Inflation and deflation would disappear, in so far as they would no longer be part of the business of bank profit, and in this way trade cycles would largely disappear.

Loans would mostly be made through the Investment Departments of the banks.

To end the curse of the trade cycles once and for all, there would remain for adjustment the Stock Exchange and our present-day company law.

(iii)

Debentures, Preference Shares, and Prior Charges of all kinds should be abolished in favour of investments in Ordinary Charges.

All currency would now represent, as it rightly should, the production of the nation; it would be held in trust by

[1] The recent instance of the Bank of England coming to the rescue of the huge Richard Thomas steel combine is a case in point. No doubt it would have been a catastrophe to have allowed this firm, where the Directors had apparently bitten off more than they could chew, to close down, but it is what would have happened to smaller concerns not fortunate enough to secure the ear of the Governor of the Bank of England. The illustration warns us of the great danger in the new way public money is being used.

citizens, who would be made to realize that the possession of money implied the duty to circulate it. The duty of calculated spending must be made to supersede the duty of calculated thrift, other than might be secured under a national pension scheme, discussed in a later chapter.

There appears no logical reason why some people who possess quantities of money should remain in a favoured position where, without taking any risk or doing any useful work, they receive a fixed income, just because they are the owners of so much currency. If there is any reason it would only be that they had reached a certain age and had made provision for it. If we can arrive at a principle making this no longer necessary, there will be no justification for sterilizing currency by saving—except for investment in ordinary shares.

No sound argument can then remain for allowing the continuation of a sheltered class of investment.

The amount of funds awaiting useful investments would be very large and could be increased at any moment, not only by issuing more Internal Currency to replace gilt-edged securities, but also by the work involved and created by the Planning Council's programme.

There remain further indirect factors, under the heading of Stock Exchange and speculative commodity buying.

If Stock Exchange shares were all restricted by law to ordinary shares, and all kinds of preferred shares or debentures were prohibited, there would be a profound and healthy change in this side of finance, with its boom and slump effect on trade. It should be an essential condition that options to buy shares were no longer permitted by law. All transactions should be cash; they should not be "carried over." This would be a severe blow to financial juggling.

Stock Exchange loans, that create the absurd position

where hundreds of millions of pounds are added to or subtracted from the value of shares and the nation's "paper wealth," overnight, would disappear.

Let us get down to facts.

How is it possible to increase or decrease the actual wealth of a country by hundreds of millions of pounds overnight? We certainly do live in an age of make-believe. Is there anything more ridiculous in the simple village maiden who believes in love-potions, or the superstitious countryman, who believes in witches, than in those who believe that a few score men, shouting together in a crowded city hall, can increase or decrease the nation's wealth by 25 per cent by a few hours' bawling?

If wealth represents production, and production is the result of labour, such added "values" can only mean that Stock Exchange gentlemen can create out of nothing a claim on the labour of the community as a whole. Which they, in fact, do.

When they add on a hundred or so millions, they call it "Prosperity." When they take away the millions, they call it a "Slump." In reality they are merely adding to the confusion of trade and creating the disasters of a trade cycle.

A further factor upsetting normal trade conditions is the dealing in options on commodities. This has a profound effect on trade and leads to cyclical crises.

Certain bright gentlemen of financial genius get a pretty notion that they can corner some market. They buy up the right to large stocks of goods or raw materials in advance and prevent industry from getting supplies. They "create a shortage."

They are then in a position to fix their own prices. As they have an "option" (which means they have paid a deposit for sole right to buy supplies until a certain date)

on all the available supplies, legitimate buyers cannot go elsewhere. The bank invariably helps the speculator to finance this "corner." When he has succeeded in it he begins a publicity stunt about the shortage of supplies.

Manufacturers of all kinds know that they must look ahead for supplies of raw material if their works are to remain open. So they rush in to buy goods lest there should be a real shortage. To be quite safe they overbuy, which is exactly what the speculator wanted.

Up goes his price. Gradually he gets rid of his stocks at an immense profit. He has never paid anything more than a deposit on the options. He has probably never seen the commodity itself, and has certainly not added anything to its real value.

The manufacturer has played for safety in the interests of his plant and his workmen. Ultimately he finds that there is really no shortage, but he has contracted to buy perhaps three times his requirements at a high price. The actual producer of the raw material, when he has fulfilled all the speculator's orders, finds that that gentleman is no longer interested in buying. He goes out to find a market for subsequent products but finds the market is already full up. Down comes the price. The unfortunate manufacturer has now maybe three times as much stock as he wants at perhaps twice the slump price.

The producer's workers on the raw material become unemployed or have their wages reduced. At the same time the high priced raw material which the market is filled with has sent the cost of finished goods up. Sales are thereby contracted. From a 100 per cent production, the manufacturer comes down to 50 per cent. His workpeople suffer. A cyclical crisis is well on the way.

How can we cure it?

We could prohibit "futures" to be bought by anyone

except the actual manufacturer and except for direct delivery to him. His buying of options on raw materials would be no hindrance but an aid to trade, as it would enable the producer to calculate his market more clearly, and his returns.

Gold is of little value to a blockaded country compared with copper, nickel, whale-oil, wheat, etc.

Surplus stocks should be held by the Government as a necessary insurance against the risk of shortage due, for instance, to war. Such stocks could take the place of the gold hoarded at present.

This would be of great value to world trade as a whole. If the Government undertook to buy on the world market when the price of certain commodities fell below an agreed economic figure, and if it sold direct to the users only, when there was a tendency for it to rise above that figure, the value to world trade would be immeasurable.

At present the position is chaotic. When copper, for example, falls below or rises above an economic price, trade suffers as a whole. The entry of the Government into the market would give confidence and the community would have the satisfaction of holding a commodity at least as useful as gold and, in time of war, much more necessary.

Speculation would come to an end. Commodity prices would be stable. Some of the dangers of a war blockade would be overcome.

CHAPTER VIII

THE PLANNING COUNCIL

(i)

PARLIAMENT is suffering from indigestion. It takes on more work than it can handle.

Modern conditions pile on the work of legislation, organization, control. All the laws passed between 1225 and 1340 occupy just under 500 pages in the ordinary edition of *Statutes at Large*, an average of just over four pages a year. Those passed in 1936 alone, 1,900 pages. Under these conditions things are rushed through, and there is little or no co-ordination of the economic life of the nation. The commercial and industrial world creates its own booms and slumps; the members of Parliament and the Government run along behind, breathlessly trying to catch up with each new phase.

Housing gives a clear picture of this. In 1921 80,000 houses were built; in 1928, 170,000, and in 1937, 340,000.

It will be seen, therefore, that production has been increased in all the many trades that were planning in 1921 to supply 80,000 houses. They increased to a peak production in 1937 of 340,000.

But this 1937 production is far higher than we require annually. Those who have calculated our average annual requirements place the figure at 220,000 houses. If this is so, we have by lack of co-ordination, as far as the building trade and all its supplying units is concerned, created for ourselves a machinery of alternative booms and slumps.

If we had had a separate Planning Council to arrange

the economic life of the nation, we could maintain a steady and carefully considered rate of progress that would avoid this state of affairs.

The lack of such a council may have very serious consequences for us. Sir Norton Barclay of the District Bank recently admitted that "economic recovery" in Britain since 1932 was based largely on a boom in building, including the re-housing schemes of local authorities and the activities of the speculative builder. He went on to say that "many people believed the building boom would be of short duration." That means, that with the end of the building boom the recovery of recent years will disappear.

The idea of a Planning Council is not a novel one. Sir Basil Blackett has made himself clear on this point in his book *Planned Money*.

Of the work such a council could do, he says, "Real planning . . . requires a readiness to question every existing institution and the foundations on which it rests." Later on he says: "In the absence of a positive policy, hand-to-mouth expedients have to be resorted to, and decisions taken hastily at the last moment, to deal with particular situations as they arise."

In his book *Modern Money* Lord Melchett wrote:

> "Over and again we see steps taken, which might have prevented disaster, not long after the disaster has occurred, but when the position has become so demoralized that such steps are either no longer effective or have only half their effect."

Later on he says:

> "Parliament would be well advised to create a new assembly, subordinated to itself, free from organized party exigencies, detached from public opinion, and composed of persons possessing special qualifications in economic and commercial matters."

Speaking at Oxford in June 1930, Mr. Winston Churchill urged Parliament "to create a body, subordinate to itself, in the form of an economic sub-Parliament."

Harold Macmillan, M.P., in *The Middle Way* (page 10) says:

> "No comprehensive scheme of national planning has yet been evolved. Expert criticism has revealed the deficiencies of partial or piecemeal planning, and has made it clear that we must carry the idea of planning farther, and evolve such a national scheme."

A Planning Council along these lines would have to work hand in hand with a "Currency Commission."

Its constitution would have to be something like this:

Firstly, it would not have to be elected. It would have to be free from the lobbying and corruption that would undoubtedly enter into any such an arrangement. It would have to consist of people of outstanding ability and education connected with the professions, with the arts, accountancy, industry, shipping, distribution, transport, and labour. It would be unpaid and membership would be regarded as an honour.

Its membership should be drawn from all the recognized organizations representing the different interests suggested. The professions would be represented, for instance, by the Presidents and Vice-Presidents of the recognized architectural, engineering, surveying, medical, legal, and other associations.

In industry there would be a similar selection of the recognized heads of the great organized trades. In the commercial world representatives would come from the organized export and import trades and the Chamber of Commerce; Transport should include organized shipping, road and rail interests, and possibly more important in these days, distributing power.

The brains behind the country's productive and distributive capacity should be drawn into the service of the community.

A Planning Council of this kind should have, among its duties, the creation and inauguration of plans for the general improvement and advancement of the country. Its aim would be to keep a steady flow of purchasing power in the form of wages and, in this way, to keep our national economy balanced and the price-level stable, and to see the excess production for export was consistent with our need for import.

To begin with, the Government departments would have to be made responsible for the delivery of prompt and correct statistical information under every appropriate heading. At present this is not done. The figures of houses built per month, and per year, some of which were given in the beginning of this chapter, are generally available three months late.

In very restrained language the Macmillan Committee has already drawn attention to our statistical shortcomings, to the lack of accuracy and the complete absence of some figures. Sir Basil Blackett said: "There ought to be a thorough overhaul of existing statistical methods and machinery."

"Wherever the economist turns for vital facts," wrote Lord Melchett, "the figures are not available. The Government do not insist by law on having them. There is no concerted planning in the world except in Italy and Russia."

(ii)

The Planning Council would, of course, divide itself into sub-committees concerning themselves with different

aspects of the national life with which they are especially associated.

Based on the trade figures received from the Government departments, together with those supplied by the associations the members represented, they would be working always ahead of the actual situation of the country.

For instance, in the metal industry, lack of future work is first seen by the professional bodies associated with the engineering industry. Their records show draughtsmen being dispensed with.

This means that certain industries need to be given an impetus; otherwise in six or nine months' time work-people will begin to be discharged. Such a contingency would have been prepared for by the Council, and plans would be ready to prevent the expected slump taking place.

A dangerous increase or decrease in the number of building plans would indicate the need for close supervision. A similar rapid change in blast furnace production would call for correction. By the aid of statistics any slump or depression could be anticipated months in advance and circumvented.

Municipal bodies would be free to carry out certain types of schemes without reference to the Planning Council. These would be such that could be paid out of current income.

Other schemes, in which the results affected other municipal authorities, beyond their boundaries, would have to be referred to the Planning Council for co-ordination.

In addition, local authorities would be required to register certain major proposals with the Planning Council. The Council would then be able to decide the

best moment for releasing them and arranging the necessary credits, from its knowledge of employment conditions and the supply of the necessary materials.

The result would be a steady pressure of work and much relief to the business of Parliament. The House of Commons would, of course, still have the right of veto.

A Planning Council would be able to keep on file a constant supply of work of national value, covering such things as land reclamation, the dredging of rivers and their improvement, draining of land, rectifying of the coast-line, etc. This would be to supply "work on demand" to those who were unemployed.

This matter is dealt with in a later chapter on the subject. The whole essence of such work would be to create an atmosphere that made it a public duty and honour, at some time or other, for every citizen to apply for such work.

In this way those who apply for such work because they were unemployed would no longer feel that they were doing "relief work." There would be nothing derogatory about it. There would be no class distinction among those engaged.

We have much to learn from the Labour Camps in Scandinavia and Germany. It would be a good thing for all young men, regardless of their social position, to be conscripted to national work of some kind for a year on leaving school. A period of hard manual work would be a good thing from a national health point of view, and the communal existence would do much to break down class distinction and a snobbish attitude to manual work.

Professional students might be excused heavy manual work, and also those engaged in long courses of specialized study; but they would still benefit by a curtailed period

of national service in conjunction with others and with the unemployed.

The work would be very different from that described in O'Duffy's *Life and Money*:

> "The British Government in Ireland during the famine of 1847—in its wisdom decided that what they needed was work.
>
> "The unfortunate victims of the famine were accordingly employed in building towers, and pulling them down again, digging trenches, and filling them up again, in destroying roads and reconstructing them again. It all reads like madness now, but it was done at the solemn dictates of the economists of the day.
>
> "Our present economists will look equally foolish to the next generation."

Then there would be the question of work for the occupants of our jails. The present soul-destroying system of dull and irksome labour would have to be replaced by work of national importance created for them and paid for at a reasonable wage.

This wage, which would be free of taxation, would be subject to considerable deductions to the State for payment to the prisoner's dependents. It is unfair that a prisoner's wife and children should be left destitute, paying in this way for the crime of husband or father.

Work would be varied to suit the type of prisoner. Our policy should be to segregate different classes of criminals.

It is not just that because a man has sinned against the community's rules and regulations we should have to keep him in food and lodging. It is better to give this man work of value to the community he has harmed. In time it will help him to regain his self-respect.

(iii)

Schemes of this kind have, of course, to be financed.

Under a two-currency system the Government would

be the sole issuers of money through the Currency Commission. As the schemes of work suggested above were passed by the Planning Council, the Currency Commission would give the necessary credits.

It would issue notes to pay for the work. These notes would be destroyed later against completion of the job. In this way the Commission would act in exactly the same manner as a private banker acts at present, when he allows an overdraft to finance the building of a new wing of a factory. They create credit "out of nothing." But whereas at present this is not planned and is in the hands of private individuals, who make a profit out of it, under our system it would be in the hands of a Commission and the whole community would profit.

There would be no inflation. A Stock Exchange boom is often sheer inflation, with no logic or book-keeping behind it. But credit issued along these lines is no more inflation than present-day business practice.

The credit is cancelled out subsequently by the return from the work that has been done. If necessary, if too much currency does appear to be getting into circulation, the price index will show this and currency can at once be withdrawn from circulation by many means, including taxation.

A final word on the price-level. One of the greatest aims of the Planning Council, Currency Commission, and of the Government, should be to see that the food you eat and the clothes you wear are maintained at about the same cost.

It should be clearly appreciated that selling short-weight and swindling by having scales that have been tampered with is the same sort of thing as a depreciated currency. For the one you will be sent to prison; the other is practised with impunity by the Government and

financial authorities. The *amount* your money will buy is just as essential as the correctness of the weight when you buy a pound of butter.

Nowadays prices rise for these essential goods from two main causes—shortage of crops and financial manipulations.

The first of these causes can be cured partly by the agricultural section of the Planning Council. Nature, which cannot be controlled by any council of men, can be safeguarded against by proper supplies, storage, and a properly co-ordinated import and shippers' council.

The second cause is possible because of our banking system. Under a currency system such as I have described, any price boom caused by speculators would be nipped in the bud by withdrawing credit facilities.

The corner in pepper which aroused such indignation a while ago could not have been created without the support of the banks. No corner ever can. The granting of non-essential credits by the banks would have to be strictly curtailed in all such cases.

Maintaining a stable price-level would not always mean that, for instance, eggs were always the same price. It would mean, however, that an agreed group of commodities, covering many alternatives, would be the same price. The housewife's pound note would always buy a similar amount of food, although the composition of the larder might vary.

There will be no control of the price of luxuries, except where this was the product of a combine, as described in Chapter XIV. Otherwise the price would be controlled by competition and, as is always the case with luxuries, if they are too dear, we would buy something else.

CHAPTER IX

DEBTS

(i)

THE difference between long-term and short-term investments abroad would appear to be that with the former it takes much longer than with the latter to discover that you have lost your money.

Before going into the question of debt generally and the problem of lending, perhaps it would be helpful to recall the views of some well-known writers. The most complete statement of the position has maybe already been quoted: "Repudiation of debt will become inevitable" (ARTHUR KITSON, *The Bankers' Conspiracy*).

In *Defeat of Debt*, R. McNair Wilson says: "The world is now engaged in repudiating debts which in no circumstances could have been paid."

Sir George Paish, after suggesting that nations are suffering because they are owed money, says:

> "Hence is it not desirable to reconsider the whole problem? And if these payments are causing greater injury than benefit, to cancel the debt?" (*The Way to Recovery*).

M. Van Zeeland tells us:

> "Intelligent judges do not fail to emphasize the depressing influence . . . of the absence of a definite settlement of international political debts."

Many other writers of world-wide recognition have expressed similar views. How far is the existing foreign debt system sound?

To begin with, let me again emphasize that a bad

debt abroad, whether it be for goods sold or on account of money lent, whether by the State or by an individual, has the effect of a bad debt to the community as a whole. Currency or capital that an individual may hold represents a claim on the community for the products of the labour of that community. If that currency is used at home, whether to open a factory, to buy a car, or to pay for a holiday, that claim is handed on and has been circulated to the benefit of all whom it reaches. The keeping of currency in circulation is a duty that results in the well-being of everyone.

If we buy goods abroad with our money, we have at any rate benefited by the goods and created the necessity for the foreign seller to use the currency he has received to purchase goods from this country to the benefit of the community here. Under an "External Currency" system, that money, sent abroad, definitely involves an equal amount of goods being bought from this country.

But what happens if we lend this money abroad or buy foreign shares? We hand over to borrowers a claim to so much labour of the country here. With this they can claim so much of our goods, either directly or indirectly, giving nothing in return but a promise to pay a small percentage each year out of their surplus goods and services.

In the long run, if a country buys more than it sells, it cannot pay us unless, as has long been the case, we go on lending them more with which to pay us.

To pay us they must always sell more than they buy. Otherwise they cannot pay interest, much less pay back the capital sum.

We may take it as an axiom that if a country consistently (*a*) sells more than she buys abroad, or (*b*) buys more than she sells abroad, she will either have (*a*) her debtors defaulting or (*b*) become a defaulter herself.

Lending money except for development purposes (and actually used for this purpose) only staves off the inevitable day and misleads the public of the creditor country.

An example of this is Roumania. She received £4,547,942 from us for goods she sells us. She does not use it, however, to repay us for the £1,813,381 we sell her. She uses it for other purposes.

We have recently made a great show of "lending" her £10 millions, on which she will pay interest for a year or so—and then default.

The practice is a totally dishonest one. The Government that does this makes a good show in its trading figures: a later Government is left to hold the baby. A similar loan, we note, has been made to Turkey. It's *your* money they are lending, remember!

Some people delude themselves that this money lent abroad by financiers and the Government is obtained from the bankers. A complete delusion. Neither the bankers nor the Government have any money of their own. It all belongs to the people and represents production. Your money (or production) is lent and you pay for the default, plus interest. The payment by you for the default is artfully concealed in duties, taxes, etc., which inevitably result in the small man suffering much more relatively than others.

To lend to an undeveloped country may be sound business, providing the loan is used for development, which will create an export surplus later on. If the money, however, is used for anything else—for paying off other loans, for example, for armaments or luxury construction (new Government buildings and so on) the loan will be lost; the borrowers will be unable to pay. External sales will not exceed purchases, and the country will not be able to pay any interest annually; the capital will be lost.

This already looks perilously like the position with Japan. Without credits she could not have conducted the war. Those who gave them are largely responsible for it.

We lend £10,000,000 to Czechoslovakia. No mandate exists for the loan. If we can "give" such a sum, what can be said of our neglect of the many thousands in the Colonies on the starvation level? Such a sum in the Colonies would be productive of great development, and ultimately give its own return. The £10,000,000 lent to Czechoslovakia, however, will, in the natural order of things, be spent in the adjoining countries. Thus Germany, to whom a large proportion will go, must feel very grateful for our prodigality.

It is clear that foreign loans can only be repaid if they are used to create a surplus of goods or services over the internal requirements of the debtor country.

In passing, it might be pointed out that the creation of a surplus of goods and services has an international value. It would appear logical, therefore, for such loans to be arranged internationally. The responsibility should not rest on one country.

It is obvious that great care needs to be exercised in granting loans of this kind. One needs to investigate the economic possibilities of the country wishing to borrow in relation to the possibilities of repaying the capital. If there is a possibility of the world securing a rich return from such an investment, any question of *interest* is beside the point; it should not arise any more than when you risk your capital in any new enterprise.

In considering such types of loan, attention must be paid to the nature of the goods or services of which one hopes to secure an excess. Countries like Great Britain have, in the past, lent money to develop mineral and productive sources that have subsequently been of benefit

to the world at large. On the other hand, much of this financing has resulted in a direct loss to the lending country.

It becomes a moot point if the development of the borrowing country is likely to be along the same lines as the lender. Take Japan, for example. The great commercial development of recent years was based on British loans. These loans built up an industry in the Far East that has since become a serious competitor to Great Britain; it has wrecked a large section of British industry.

The development of such a country may be of great advantage to the world, but when the interest on her development debt is only paid by underselling her creditors on the world market, there is food for thought.

How far loans or the possibility of creating an export surplus should be given to possible competitors is a matter to be considered. The shipment to such countries of machinery is an example of this. Since 1920 Great Britain has exported £832,000,000 worth of machinery and the competitive position of many of the countries to which this has been sent has some bearing on Great Britain's present export weaknesses.

This is doubly so when that machinery is to be worked by low-priced native labour.

Loans to developed countries, like Austria and Germany, for the purpose of bolstering up any inability to pay existing debts and interest on debts can only be characterized as pernicious.

According to McNair Wilson, in *The Defeat of Debt*, during the last twenty-five years of the nineteenth century Great Britain lost £3,000,000,000 of real wealth through loans that were never repaid. In other words, the British working people made the rest of the world a present of this amount of goods and services.

Chris. Hollis asserts, in *The Two Nations*, that in the year 1878 some 54 per cent of foreign loans were in default.

But these periods and their losses pale into insignificance when compared with the wholesale disavowal of debts to-day. Each loan of this character is a pure gift of the products of this country—of the labour of the people in this country. These discredited loans have been entered into on the advice of large financial houses, who have thereby profited and, often enough, with the direct or indirect backing of the Government.

When we consider these points it becomes clear that the advice of our financial experts and politicians is not worth a great deal. £8,825,000 was the debt outstanding in Austria in March 1936 (*Whitaker*). Millions were lent to keep the Kredit Anstalt afloat when that important bank wobbled on the verge of bankruptcy.

This advice came from the Bank of England. Following the absorption of Austria by Germany, this debt was in reality repudiated.

The so-called "settlement" was presented to the public in the guise of a brilliant stroke of genius. The whole matter was flagrantly whitewashed; it was comparable to a company promoter's prospectus. The agreement lumps the interest on German loans and commitments together with the Austrian and reduces the rate of interest on the whole so that the sum now to be paid is around the figure that would have been paid on the German debts alone—i.e. as if the Austrian debt had been repudiated.[1]

Millions more pounds "went west" through the League of Nations' issues, recommended (and some of them

[1] It is, however, a sensible ending to the usurious transactions and high interest rates that preceded the negotiations. The *Economist* referred to the matter as "a partial repudiation of debt." The bondholders lose a paper minimum of £210,000, although the real loss is certainly greater.

guaranteed) by the British and other Governments. These were all loans of political expediency. They were not loans for development and never had the slightest chance of being repaid.

For all this the responsibility rests on those who advise and those who frame the foreign policy of this country.

(ii)

The world is now hopelessly entangled in a morass of unpayable debts. Still further indebtedness—more loans—cannot be considered as a way out.

What would be the result of a two-way currency in which the external is divorced from the internal?

As Internal Currency could not be used outside the country of origin, and External Currency could only be issued by the Central Bank, the matter would be controlled much more centrally than at present. The basis on which loans would be issued will be fully dealt with in Chapter XVI on Colonies.

One point to note is that the use of an External Currency in this way would close down international speculation and financial juggling.

But the more practical question is how a two-currency system could effect the settlement of past debts, and how such a system could eliminate their destructiveness.

If the system was first of all inaugurated by Great Britain alone, her payment with External Currency to the full amount of all external indebtedness would bring home to all concerned the real nature of debt as a cancer-like growth upon the body economic.

The bulk of British debt is to the U.S.A. It is somewhere around £900 millions to the U.S.A. Government alone (*Whitaker*).

Britain cannot possibly pay this in gold, whatever American "backwoodsmen" may think. The only way to get the gold would be to have a tremendous export surplus (and we have seen that, in fact, Britain has a deficit). This could be done only by reducing our prices so much that we could undersell the U.S.A. and other countries in every market in the world. We would then sell our goods instead of theirs, ruin their industry, gather in gold and hand it over to them. This is, in fact, what the Versailles Treaty required Germany to do.

The only alternative is to pay U.S.A. in British goods and services.

If Britain paid in full with the External Currency proposed, the liability would be admitted in full.

In either circumstances the amount of goods this country would be called upon to manufacture would create unheard of employment here for years to come. The rest of the world, and the United States in particular, would at the same time face an equal period of untold unemployment and distress.

By actually paying them in External Currency we should place upon *them* the burden of deciding whether to use it and create a boom for us and a slump for themselves, or whether they would hold it until its three years' date-limit had expired, and it was valueless.

(iii)

Let us look at the broader issues arising from the universal adoption of a two-currency system. Such a principle would allow all countries to settle their debts and hand on to their creditors the burden of decision whether they should be paid or not.

Let us assume that every country adopted an External Currency dated so that it was valuable only for three years from the date of issue. Suppose each country paid all its debts in this currency. Each country that received this money—these claims on foreign goods and services—would then have to decide whether it wanted its economic life to come to a full stop or no. It would have three years to make up its mind whether to close all factories and mines by using this currency and buying with it, from abroad, all the goods and services its own factories and mines had previously produced.

If these countries did decide to use the currency and absorb the goods offered, the demand would be so great in the issuing countries that prices would leap upwards so that war debts would be discharged at levels somewhat comparable to those at which they were contracted. There would be work for all and high wages for all in the present debtor countries. And none in the creditor countries.

Just imagine Russia handing over £1,000,000,000 to Great Britain and France, Germany handing over her prodigious war debt, Great Britain handing over £900,000,000 to U.S.A.

The United States would be involved in accepting about £2,000,000,000 worth of goods from thirteen countries.

Is it really likely that these creditor countries would use this money and thereby close down their own factories and farms?

Within three years, as the currency's validity expired, the entire debts of the world would be cleared up—by no one wanting them paid. The paradox of "nations suffering because they are owed money" would come to an end.

Just now we are living in a land of "make-believe," like children playing nap with "million-pound" counters.

CHAPTER X

PENSIONS

(i)

In the days of barter, when civilization was in its infancy, there were neither pensions nor doles in the sense that we understand them to-day.

But some of our monarchs had a pretty little habit of helping their friends, in old age, by creating jobs about the court, involving no work but a great deal of pay, at the expense of the working public. These were called "sinecures," and had permanent salaries attached to them.

There are many examples of this. Seventy-two years after the death of William Penn, founder of Pennsylvania, a pension of £4,000 a year was granted to his descendants in perpetuity. This was approved despite the doubt whether there were any real descendants or no . . . ! It was paid regularly each year, out of the pockets of the British public, until 1884—a matter of £376,000, and then the "heirs" were bought out at the cost of a further £107,780.

Charles II made his son "Remembrancer of the First Fruits and Tenth of the Clergy in the Court of the Exchequer." James II made a present in 1684 to the Duke of St. Albans of the hereditary office of "Master of Hawks." This patient country went on paying until the year 1891, when there had not been any hawks for generations. And then it had to compensate him to the tune of £18,335 to give it up. (See Command Paper 248/1887: *Perpetual Pensions.*)

Some outspoken critics of our unemployed, who get

hot under the collar at the idea of old-age pensions and "pampering the workless," would do well to remember these and other examples.

In those early days (and some of them not so very early) a man produced as much as he could, and stored supplies for the winter. He pickled vegetables and fish, salted and smoked meat. Spices made them palatable.

As his family grew larger he had to increase his sowing and reaping to provide for them.

In old age he was cared for by his sons, who took over his land, regarding this as their duty. In this way they repaid him for past work and the asset he had passed on to them.

Later on it became understood that you could store value or wealth in some more lasting commodity. Surpluses from a good year could be exchanged for gold, silver, or copper. These could be saved against bad years or old age.

In the days of barter one did not create liabilities or debts of any kind. You gave a man a sack of wheat for mowing a field or for doctoring you.

If a landowner agreed to feed so many people a year it did not involve him in a financial crisis. If he had that amount of food which he himself did not want to eat, he gave it to them. That was the end of the matter.

In more recent years the idea of a pension has been introduced *by* servants of the Government *for* servants of the Government.

A Government pension is really a promise by the community to people who do certain work for them, that the community or posterity will, when these servants grow old, supply them regularly with an agreed amount of the results of the community's labour.

More recently the idea of a pension spread to municipal

authorities. Local Councils pledged future ratepayers to provide for the old age of present servants.

Following this, certain semi-private concerns started pledging the community to keep their ex-employees!

Banks, for instance. Insurance companies, too. They have begun saddling future generations with the burden of keeping old men who were once their clerks and officials.

And all these favoured and protected citizens, it should be noted, are clerical or executive workers. None of them are producers, even in the indirect sense!

This idea of pensioning of the old is but an extension and a revival of the way in which the father was kept by his sons in the Dark Ages. The difference is that in the days of simple barter, the father had generally been a producer himself; he had spent the whole of his life improving and cultivating the land from which his sons benefited.

It is very strange that in modern life the idea of a pension should have begun in the first place among non-producers.

The first to be able to retire on a pension are those who have in all their lives never produced goods at all.

For the millions who have spent their lives creating the wealth of a country there is no such assurance of any adequate support in old age or if illness or misfortune leaves them destitute.

Quite recently the Prime Minister admitted in Parliament that further consideration would be given to the question of pensions for M.P.s.

On what authority will he do that?

Was it mentioned in any election address?

A company director would be charged with spending money on objects not authorized by his Articles of Association and liable to all sorts of penalties if he did anything like this!

(ii)

I should not like it to be thought that I disapprove of pensions for these sheltered classes of society. On the contrary, provided they spend their pensions, it is excellent business for us all. Pensions are just a means of insuring the circulation of goods and services. If spent, they are an asset to industry and the community.

What I do object to is using the producers of wealth to provide for the old age of non-producers only.

Is there any sound reason why pensions should be paid to these sheltered professional and clerical workers by unsheltered workpeople? But for these insecure producers we should all starve.

Just consider the job of a Civil Servant or municipal employee. He gets a month's holiday; he has no worries if he is ill; he has short hours of work and no overtime. His pay—at least as far as the general run of employees is concerned—is above that in commerce. He has little or no responsibility; he is not in constant danger of dismissal if he does not work hard enough. He has no risk of losing his job or having his pay cut because business is bad. He does not have to show initiative. On the contrary, he dare not. It is the recognized haven of safety for the placid soul. And it carries a pension at the end of the road. No such a plebeian word as "dole," mind you! And that pension is found by the producers!

And look at the other side of the picture.

You work on a farm, maybe, or as a miner, a bricklayer, a transport contractor, a clerk in the factory, a typist, a work's employee, a work's principal, a shopkeeper, a journalist. What is your situation?

You pay rates and taxes, municipal and national. You pay taxes on your cinema seats, on your tea, on your beer,

on your whisky, on your dog track, all to help run the country. In other words, you pay taxes to pay these pensions to other people and also to pay interest on your own money that the banks have lent to the Government.

Your business may fail. You may fall ill. The spectre of your family, hungry and destitute, faces you with constant worry. Fear of the future stifles your initiative. The country suffers from the loss.

You limit your family through fear—of insecurity for yourself, and uncertainty for the future of any children you may have—and all the time you are the fountain, the source of industry and production, from which these sheltered folk gather their assured incomes and live their life removed from fear and uncertainty.

We must get rid of this anomaly at once. Government, municipal, insurance, bank and such employees must not continue to retire to a pensioned old age at the expense of those who produce the food, the clothes, the houses, the gas and all the things their pensions are a claim to.

The producers themselves, manufacturers and craftsmen, working men and farm labourers, ought not to have to struggle and save and starve to put a few pounds by for their old age and infirmity.

Pensions—not "doles"—for everyone, on a clearly defined, equitable, and mathematical basis is an urgent demand in these days.

(iii)

Let us look into the question of doles. This is what Eimar O'Duffy says about it:

"Modern industry is so well equipped and organized that it can produce enough goods to satisfy everybody's wants without calling on everybody to work. But, in spite of this, society

insists that no individual shall take a share of the product unless he works. In consequence, the goods, which an unemployed man would consume, are presently left unproduced, with the result that those who would have made them are unemployed in their turn, and a fresh shrinkage of production follows, leading to more unemployment, and so on *ad infinitum*.

"Unless you work, you shall not eat; but there is no work for you to do; therefore you must starve.

". . . not everyone in Great Britain, who is unemployed, comes under the system. The number of persons thus disqualified for the dole must run into tens of thousands.

". . . the very existence of the dole itself is a confession that our economic system is at fault . . . it is an admission, in the first place, though a grudging one, that pay may, and should, be awarded without work. And in the second place, it is an admission that the goods are there for the having."

Everyone is entitled to subsistence. The sooner this is recognized the better. There is enough for all, and those who wish for more than subsistence should be entitled to demand work whereby to earn it.

When we make armaments we merely circulate money that is created on the printing press or out of the inkpot. If we made the same amount of goods and were to sink them into the Atlantic we should still have circulated currency.

When we lend money abroad and do not get it back, we circulate money in the same way.

It is an illusion of war production to think of these things as a debt to posterity. The moment the work is finished and the goods are produced, they are paid for. The job is ended. Posterity will disavow any debts connected with them.

Similar illusions surround our conceptions of purchasing power, currency, distributed as pensions. As the pension is spent a demand for goods is created. These goods are accordingly made. But there is this difference:

if armaments are dropped over the side of a ship into the Atlantic, or if goods are given to foreign countries and not paid for, the community does not retain for its use the products of its own labour. They are wasted.

We have admitted the justice of pensions by introducing the "dole" and the meagre old age pension of Mr. Lloyd George. But outside the provisions of the dole we have illogically left many sections of the population unprovided—until recently the farm labourer, for instance, and he is still under a disability. Still the author, the transport contractor, the domestic servant, the journalist, the shopkeeper, clerical workers of all kinds over a certain wage, and the principals of concerns—these sections of the community get no "dole," but are taxed for non-producers' pensions.

The amount paid in old age pensions is a scandal. We pay 10s. a week to an old man who cannot work, but who has spent a long life producing and paying taxes to provide in part for pensions to a favoured class of non-producers. We pay half as much again to a young man who has not worked, and if he has a family nearly three times the amount.

Let us begin from the logical standpoint that everyone is entitled to subsistence and additionally a pension on retirement. The latter should be in proportion to the standard of life he has been able to secure for himself, while working, and the use he has been to the community. The subsistence payment should never be below the level of subsistence.

The idea of 10s. a week as a subsistence level is ludicrous!

Let us assume that there is work available for all who wish for it (see Chapters VII and VIII). The National Debt is being reduced progressively (see Chapter IX) by

creating Internal Currency and paying it off. This, in turn, is causing increased spending, increased demand, and therefore increased production, setting everyone to work who wants to work.

The reduction of the National Debt would mean less interest to be met out of income tax. It is probable that no serious basic change from the present in the income tax would be needed to pay a reasonable subsistence and retiring pension to every man and woman in the country. The former would be enough to keep them clothed, alive, and in good health, and the latter would be consistent with their income-tax payments—a measure of their work for the community.

Any balance in the cost would come from the income tax on the small earned incomes not at present levied, against which no argument could exist if everyone was assured thereby of this basic subsistence and retiring pension.

The fact that everyone was entitled to a subsistence and retiring pension would make it easier to dismiss incompetent Civil Servants and municipal employees. One would no longer be checked by the thought of them losing their pension; if they were as open to dismissal as the ordinary commercial employee, a great step would be taken towards efficiency in our national and local administration.

Such a policy would remove for ever the fear of the future. In *Brass Tacks*, C. D. Coyle says this of a similar proposal:

"On a national scale the danger that there may not be any young people to pay your pension when you are old can be disregarded.

"The old age pension, provided the costs are collected by income taxation, is a means to prevent saving and to force the

rapid circulation of money. It will prevent saving by relieving fear. . . .

"A heavy income tax with a universal old age pension and other public services, might be made a complete recovery programme, without paying any attention to construction jobs."

By a graded income tax we can do a great deal to prevent unnecessary saving, which prevents the circulation of goods.

(iv)

In deciding how great a retiring pension a man should have, we can take as a fair guide the income he earned and the amount of work he did during his working days for the benefit of the community.

If income tax was paid on *all* earned income it would be a just way of calculating what a man, producer or non-producer, workman or Civil Servant, had earned during his working life.

We would add up all the income tax a man had paid as a young man, in middle age, and later; from this we could calculate the amount of his pension on retiring.

Having accepted the principle that no one need starve, that everyone should have a subsistence pension from the community, we would see, through the Planning Council, that everyone had a right to work if he or she wanted it. Everyone could have an earned income above the subsistence pension. This would be taxable and there could be no objection to that. The longer they worked before retiring and the more tax they paid, the greater would be their old age pension.

Those able-bodied who refused to work of their own accord could be drafted to Labour Camps for national work, as explained in Chapter XIII.

The principal of a firm who had paid taxes for years

and added greatly to the country's amenities or wealth, would no longer be faced with utter destitution, nor even entitled to the "dole" if he chanced to fall on bad times.

It is high time the world realized that there is enough for all in the world if we only learn to distribute it. Modern methods of production and large-scale farming, refrigeration, and canning have made it unnecessary for anyone to be in want. No one should starve.

Those who are unfit for work should be able to go through life on a subsistence pension. Those young and fit who refuse to work of their own free will should be placed on national work.

And healthy unemployed are more useful to their country in any circumstances for conscription into the army or for any other service than the present undernourished, undersized, and resistance-less body of men permanently or semi-permanently without work.

In the *News Chronicle* of July 8, 1938, there is the story of the wife of an unemployed man, Mrs. Mary Jones, of Tonypandy. She has five children and her husband worked in the pit for seventeen years. He has been unemployed for three years now. On a deputation to the Ministry of Labour, she and other women explained how they spend their meagre "relief" money. Many of the children in these villages of South Wales have never tasted an egg, but live almost entirely on bread and butter and tea.

This woman's husband had done more for the community than many a number of the favoured class of pensioners as at present arranged.

And there can be no excuse for this state of affairs at all, certainly not in Great Britain, as we show in Chapter XVII on Agriculture.

The children of unemployed men living in conditions

like those described receive much less than proper subsistence. They will never be of real use to the country as workers in any sphere of life. Their environment is against it, and their stamina will not allow it.

To arrive at the amount of pension to which one was entitled, the total amount of income tax that had been paid to the date of retirement would be taken into account.

In starting such a scheme the payments under Unemployment Insurance to date would rank equally with income tax.

Whilst all would be entitled to subsistence pensions, failure to draw it would go to the credit of the ultimate retirement pension.

All pensions would be computed on the total income tax received by the Government, to the date of retirement, and would be in addition to the subsistence pension. Thus pensions, whether for crossing sweeper, millionaire Civil Servant, or manufacturer would be in accord with the payments made—a true measure of work done, during life, for the benefit of the community.

Incapacity through illness would qualify the person concerned for the receipt of a temporary pension, the amount of which would be consistent with the retiring pension due at such date, and would continue during such incapacity.

A man would thus reap as he sowed. The more he paid, and the less he drew, the higher his pension.

Not only would fear be removed from the people as a whole, 90 per cent of whom fear unemployment, but it would also result in many people retiring at an earlier age than at present, making room for young ones coming on, and prevent the very unsatisfactory state of affairs in many businesses, Government, and municipal offices, where old men hang on to the best jobs after their real

usefulness has gone, monopolizing the positions of importance with their ideas of a previous generation. D. C. Coyle puts it in this way:

> "The public will come in time to recognize that a generous old age pension will create a class of buyers who have nothing to sell; that it will encourage retirement and make more room for the younger workers and, above all, that it will remove the necessity of the pathetic and hopeless effort to lay by investments for old age."

Such a system would, in fact, tend to absorb all the young men and women at one end of the scale and to retire all the old at the other. Which is what is needed and what our present methods fail to do. The "retired" would be a trained "home front" in the event of war.

There are two points the writer wants to make clear. The first is that the principle of a *subsistence pension* is already recognized fully and grudgingly by the unemployment "dole" and *both* subsistence and retiring pension where the Civil Service and similar employees are concerned. The suggestion is an extension of these principles, their universal application and codifying.

Charity, workhouses, and all they imply would disappear. No one would need to beg when it was well known that all were provided for with a subsistence pension and that healthy work could be had on demand to provide an income for luxuries.

So far as death duties are an attack on productive capital, making it necessary to close down going concerns and stifle employment, they would come to an end. They would be unnecessary.

The profits on capital of this kind would have been paid, year by year, in income tax, and would, in this way, have contributed to the cost of pensions.

The present selling up of assets that produce goods and

employ labour so that death duties can be paid, is suicidal.

The late Sir John Ellerman left about £20,000,000. He would have paid a very heavy sum in taxes to provide for a pension which, at the age of seventy, might conceivably have been £100,000 a year. But Sir John, like a lot more of his type, died in harness. The pension fund would accordingly have received enormous payments from him for which he would never have demanded any return.

(v)

What would happen to insurance policies and the insurance companies generally?

These policies are, for the most part, promises by insurance companies that, in return for your payment of so much a year now, they or their successors will at some very distant date pledge the community to provide for you by their work.

What happens to the money you pay the insurance companies in the meanwhile from year to year? They lend it at interest. They may very possibly lend it to a company that will manufacture machinery to make your job redundant.

You may be thrown out of work years before the time for you to draw your pension. And that may mean that you are unable to keep up your payments, with a consequential loss at the end.

One must face the fact that only the community as a whole is really able to fulfil such promises. Only the community can, in the end, bind the community to pay a pension. Finally, in any default, the State must take over the liabilities, as Germany had to.

In that country the depreciation of the currency

brought the matter to a head. All those people who had paid contributions to insurance companies, some of them for almost a lifetime, lost everything.

The insurance companies could not pay.

What had happened? The insurance companies had said: "If you will pay us so many marks a year, in thirty years' time we will pledge our successors to repay you such and such a sum of marks a year."

But with the currency depreciation, that sum of marks—which might have equalled 5,000 marks or £250 in normal days—when the agreement was signed—was now worth less than a farthing.

In other words, posterity cannot be made liable by a private company and only to a limited degree by a Government.

A really serious crisis would have the same effect in this country.

> "There is some £7,000,000,000 of National Debt, the greater part of which exists in Government securities. If these ceased to be really convertible into cash, our present financial system would be at an end; for this would mean that everyone had lost confidence in Government securities, which would fall sharply, putting an end in fact and in theory to the liquidity of all our banks and insurance companies" (LORD MELCHETT, *Modern Money*).

Such a pension scheme as I have outlined above would not only remove fear from our lives, but would also increase the velocity of currency and encourage young men to take pioneering risks.

Income-tax payers and their wives could be adopted as a voting register. A man who did not pay income tax would be proved a non-producer and could not vote. If income tax was paid on all earned incomes, and every man had the right to work and had to, if fit and young,

earning income thereby, there could be no objection to this.

The way such a scheme could be started would be the consolidation of all present-day pension schemes of the insurance companies and others. The Government would take over both securities and liabilities. If these insurance companies' pension schemes were assessed and added to past income tax payments, it would be possible to give effect to such a scheme at once.

The insurance companies could be turned into public utility corporations to manage the whole pension scheme.

CHAPTER XI

OUR PARLIAMENTARY SYSTEM

(i)

In an earlier chapter we said that democracy was on trial. Democracy cannot be divorced from economics. With it our whole economic system is now put to the test. If it fails our economic system goes with democracy.

Mr. Bernard Shaw once said: "No real business that had to do positive work could achieve anything on the British Parliamentary system."

Writing recently in a Sunday newspaper he enlarged on the matter:

> "It is nearly a century since Charles Dickens, an experienced Parliamentary reporter, described our Parliamentary system in *Little Dorrit*. People laughed; but since then the evidence for Dickens's view has been completed by events of which he never dreamed.
>
> "The vote has been given to every adult, male or female . . . male adult suffrage produced the history of Home Rule for Ireland and the world war of 1914. Meanwhile, we have been trying vainly for 50 years to have another bridge built across the Severn, and are still getting along as best we can with the bridges left us by the Romans" (*Reynolds News*, July 31, 1938).

Our system makes it easier to give millions to Austria, Czechoslovakia, Turkey, Roumania, etc., than to improve our own amenities at a tithe of the cost.

We suffer from the Parliamentary system of this country in the same way as we do from the organization of our economic life. In fact, one is the result of the other.

We are tied down to tradition. But it is a tradition gone mad; tradition that has become a strait-jacket. Many a

business has been bankrupted by tradition. Some of those who talk to us so learnedly and so wisely about the value of tradition should look into the origin of some of our present-day institutions that have come to be traditions. Let them read Chapter II of this book and dwell for a moment on the origin of our banking system. Yet it is traditions that have grown up in this haphazard way that are revered to-day as deeply as the Law of Moses was by the Israelites.

A proper regard for the best lessons that come down to us through traditions, if coupled with a ready acceptance of the best aspects of modern practice, together with a logical mind, is what is needed. We must beware lest we become static as a nation.

How does a large successful business function?

A managing director is appointed. He shoulders the responsibility for running the concern. To advise him he has a Board of Directors with whom he discusses his policy. He does not call the shareholders together to get their approval. They have appointed him to get on with the job.

Every year he calls them together and makes a report. They have the power to sack him. The shareholders elect auditors, who are their servants, reporting each year on the correctness of the figures illustrating the result of the managing directors' policy.

Imagine a board of directors 45 per cent of whom were in opposition. Think of them openly discussing, publishing their plans to defeat their competitors. The French system, where opposition factions oppose anything and everything the Government suggests, is even worse.

Imagine that 45 per cent opposition having a leader urging them to help defeat everything the 55 per cent majority proposed.

What chance would any firm have of establishing itself or of overcoming its competitors if it was run on Parliamentary lines?

The whole "party system" is a farce. One party or the other forms the Government but, as McNair Wilson says, "How can a political party represent the people when half, or nearly half, the people have voted against it?"

What are these political parties? "There is palpably no such man as a Tory or a Liberal or a Socialist or a Communist," he says. "These are labels, not of men, but of gangs, greedy for prestige and power."

Take the modern controversy that revolves on the question of dictatorship or democracy. It has very little to do with us here. Dictatorships are alien to our democratic past, but, unless we show that democracy is ahead, may have some effect on our future.

Should we not realise that some of the dictatorship experiments have lessons for us? Let us graft the best results onto our system if democracy is to survive—"they gossip for weeks before they can decide to build a few guns, whilst we act—that is not our fault. Let them do the same." (Dr. Goebbels, Nov. 19, 1938.) Suppose we examine these democratic principles more closely.

According to the dictionary, democracy means "Government by the people." Our problem is—which people?

Let us look at these democratic principles a little more closely.

Is it democratic that an habitual criminal, a man who has been convicted, say, as a white-slave trafficker, or who suffers permanently from delirium tremens, the mentally deficient—that all these should take part in deciding the policy of the country? It is quite possible under our system of government that one or two such votes can decide the future fate of the Empire.

Is it democratic that a parliamentary candidate should be foisted upon a constituency that neither knows him nor wants him, but whom some particular party sponsors and the inertia or complacency of the constituency allows to be elected?

Is it democratic that he should be able to promise, to get himself elected, all kinds of things that neither he nor anyone else have any intention or chance of carrying out? Is it democratic that he should win the votes of the ignorant and stupid, who do not realize the impossibility of these things, by what amounts to false pretences?

Is it democratic that a body of cranks should sell their votes to any candidate who agrees to support their particular form of hobby-horse? For instance, if he agrees to the establishment of nudist colonies? Is it democratic that such support could determine the whole economic policy of the Empire?

Is it democratic to have a voting system by which 55 per cent of the people of the country should be able to elect only some 45 per cent of the members of Parliament because of the way in which voting areas are allotted?

Is it democratic that 45 per cent of the voters should not be represented at all except as opponents of everything the other 55 per cent suggests?

Is it democratic that your second chamber should contain hereditary nitwits, descendants of some brilliant forefather, or politicians so foolish but wealthy, or ponderously old, that their colleagues in the Lower House felt it necessary to shift them by giving them a peerage? Is it democratic that these should be helped to determine our laws by a number of bishops—men as inexperienced in twentieth-century life as it would be possible to find anywhere—and no official representative of the Free Churches at all? And that even lords with a bad criminal

record should be able to take their seat and block any proposal with which they disagree?

In *Brass Tacks* D. C. Coyle says: "National policies—the plans that make history—cannot safely be left to a small self-perpetuating ruling clique. All rulers are subject to the law of diminishing intelligence . . . national policies in these fast-moving times need to be constantly checked and revised under the pressure of men who are fully awake." This is utterly sound!

It is no attack upon democracy to lay bare these weaknesses.

The fact that an Act of Parliament has been passed, even by a large majority, does not imply either that the country wants it or needs it. On more than one occasion we have seen the country in an uproar to resist a bill that has nevertheless been made law.

Two outstanding issues in the last twenty years reveal how this country has been managed, how it has been run to its own damnation, led by uninformed popular clamour, small in number but very large in noise.

The first issue referred to is the Treaty of Versailles, now universally condemned. In his *Memoirs of the Peace Congress* Mr. Lloyd George has inferred that he was not in agreement with many of the provisions of the Treaty. Much was, in fact, included only to satisfy uninformed and wildly prejudiced popular feeling.

More recently Mr. Baldwin made an admission in the House of Commons on the subject of rearmament. In a speech on November 12, 1936, he said:

> "Supposing I had gone to the country (in 1933–4) and said that Germany was rearming and that we must rearm, does anybody think that this pacific democracy would have rallied to that cry at that moment? I cannot think of anything that would have made the loss of the election from my point of view more certain."

What a shocking situation!

How far history will condemn statesmen who have not the courage of their conviction in these circumstances is not possible for us to say.

What can the average Minister do? What can we expect of a Government elected like ours? In *Modern Money* Lord Melchett gives his views:

"The permanent officials . . . have no interest in taking risks. Unfortunately they have no experience of life outside the Civil Service. They have never had to produce a profit and loss account. Their firm can never be put into liquidation.

"The Minister . . . does not know his job. . . . If you do anything in the world, you are sure to annoy someone, who will make a row. It is much easier to get into trouble than to get applause.

"He has his own and his supporters' constituents to consider. If he has some constructive plan, it is sure to annoy some of them. It is far safer and infinitely more pleasant to follow the advice of your Civil Servants, have your Department solidly behind you—and not to try to do too much. Then you will get promotion and a reputation for wisdom and moderation. A sound man. No new fanciful ideas . . ."

As Lord Melchett says: "Their firm cannot be put into liquidation." Look at this example:

"When the liner *Majestic* was bought by the Admiralty the cost of converting her into a training ship for boys was estimated by the Admiralty at £150,000.

"In the estimates of 1937 the figure had crept up to £251,000.

"When the job was finished it was found to have cost exactly £472,056.

"The Committee of Public Accounts regards this as 'evidence of failure in the Admiralty's system of financial control.' "

If the Admiralty was a private firm it would either be in Carey Street or would at once fire the executives responsible for this colossal mistake in the estimated cost of the ship.

But in the Civil Service these gentry will keep their

jobs, get their pension, and probably be highly admired for "getting away with it."

To them it is an after-dinner story, to be told to friends as a joke. But it is *our* money!

Shouldn't we adapt our Parliamentary system something along these lines?

(1) Everyone should be entitled to vote who would be eligible for a pension, as outlined in Chapter X. Certain criminal offences should carry with them the suspension of civil voting rights.

(2) An election campaign should consist of one written statement only, expressing the main policy of a candidate. Beyond this there should be no speeches and no canvassing. Perhaps party leaders would be allowed one exposition over the radio.

(3) No party should be recognized as eligible to go to the country unless it were able to put at least one hundred candidates in the field, who would each lose their deposit unless each received a certain proportion of the votes cast.

(4) Voting should be compulsory so that the community was forced to express an opinion.

(5) Voting cards should, apart from the name of the candidate, have the main points in the official policy of all candidates printed on them. Against these points a tick or cross should be placed, whether one supported the candidate or not. This would indicate the electors' attitude to items of main party policy as distinct from the candidate.

(6) When the candidates had been elected, the most popular party should elect its Prime Minister. He should form a cabinet of members from each party in proportion to the total votes they received.

(7) This Cabinet would have a real knowledge of the wishes of the people on matters of major importance, as indicated by the voting cards. Thus you might have a question like "Do you believe in a fixed Easter?" among the points of a party which had lost heavily, but was supported with an overwhelming vote on this single point.

(8) In the House of Commons voting should cease to be by party. Each member should state his views openly and freely, and accordingly no vote would be considered as against the Government except a vote on a final, completed bill.

(9) Members should be paid on an attendance basis.

(10) The House of Lords should cease to be a hereditary body, but should consist of outstanding personalities, outside the political world. Their rejection or amendment of any measure, if not accepted by the Government, should lead to a new election, in which the rejected measures would be an item on the voting cards. This would have the effect of a plebiscite.

(ii)

Our methods of taxation need amendment.

Under a two-currency system, the Government would no longer receive as much revenue from customs. Duties, where they remained, would be on luxuries like jewellery, and on goods that public policy demanded should be expensive, such as wines and spirits.

Apart from these the Government should look for revenue entirely from a graded income tax.

Here it is interesting to note in the writings of Sir

William Petty on *A Treatise of Taxes and Contributions* in 1662:

"Taxes, if they be presently expended upon our own domestic commodities, seem to me to do little harm to the whole body of the people, only they work a change in the riches and fortune of particular men; and particularly by transferring the same from the Landed and Lazy, to the Crafty and Industrious."

The national subsistence pension to all, such as proposed in the previous chapter, would be based on the income tax people had paid. All arguments against taxing the poor and lower incomes would be overcome in this way.

In fact, instead of people not wanting to be taxed, if this proposal was put into practice, people would want to be taxed. The more a man paid, the more he would receive when he retired or the earlier he could afford to retire.

It is even possible that the Income Tax Collection Department might agree to a man paying more taxes than was required of him so that he could voluntarily increase his pension on retiring.

The pensions drawn by married couples would partly cease with the death of one of the partners. Those who wished to leave to heirs investments they had made in industry might still do so. Those who received these legacies would, however, only have shares in the country's prosperity. All industrial shares being "ordinary," not preferred or debenture, they could not inherit a fixed claim on the work of future generations.

The position of the Government should be largely analogous to a business concern.

The Bank of England, turned into a Public Utility Co., would issue or withhold currency as might be decided by the Currency Commission, which would have a statutory

duty in keeping the price-level stable. The Government would secure a share of this money by taxation and, by spending, would do their bit to keep the circulation steady. As they circulated their money it would return in the taxation of profits.

Collin Brooks has said:

> "A great proportion of the sum which is raised as taxation goes back almost immediately as wages, just as it is true that a great proportion of the wages paid by the Government goes back in taxation, and to this extent the money that goes round and round, like the ingredients of a cocktail in a shaker, adds to the apparent burden without adding to the real burden."

The formation of a Planning Council (see Chapter VIII) would relieve the Parliament of a great deal of business, leaving it free to deal with legislation, foreign policy, and the general guidance of the country, while it still maintained control, through its debates, on the reports of the Council.

Budget policy would be quite different. If trade was bad, instead of cutting down expenditure as a whole, the Budget would only plan retrenchment in purely luxury non-productive expenditure, such as town halls, which, when built, do not increase the national wealth. This would be done on the recommendation of the Planning Council and through it. At the same time, there would be increased expenditure in productive enterprises, such as the reclaiming of marshlands, the Wash, road improvement, afforestation, etc.

In this way any tendency towards a depression or the slowing down of production would be met by speeding up work that would ensure better trade later on. *We should not wait for the slump.*

CHAPTER XII

PUBLIC WORKS AND PROFITS

(i)

MUNICIPAL and local authorities are said to have debts of around £1,500,000,000. At 4 per cent interest this means £60,000,000 a year.

Here Germany has the advantage over us. During the post-war years, when the mark slumped in value due to the inflation, public and private debts could be got rid of for a song. Most municipal and other local authorities paid off their debts in full and ceased to be burdened in the same way as we are in this country.

Local taxation, or rates, is different from Government taxation, inasmuch as it is not based upon profits. A tax that is based on profits is, generally speaking, a sound one. It makes the taxing authority a partner with the producer in the success of the undertaking. The taxing authority has an interest in the concern being as profitable as possible.

The present system of rating, however, can seriously hinder a business firm. A municipal authority may tax a firm at the rate of £500 a year. If the firm's turnover is £50,000, these rates are only 1 per cent of the turnover. If the turnover falls to £10,000 a year, because the price of their goods is perhaps non-competitive, the rates become 5 per cent. Prices must rise accordingly and become even less competitive.

An example of this was seen some years ago in Poplar. A number of industries left the borough because of the high rates. Those who remained had to face an even bigger share of the burden.

Under a Planning Council, as described in Chapter VIII, local expenditure would be subject to central consent, except that which could be financed and paid for locally within a short period.

The Planning Council would consider whether a scheme was productive and able to finance itself in this way, or purely a piece of ambitious grandiosity, appealing to borough councillors who do not have to foot the bill.

Waterworks, electric, and transport undertakings would come under the heading of productive work, for Government sanction and finance after the economics of short-term repayment had been thoroughly examined and approved. On the other hand, town halls and similar non-productive schemes would be held up, to be released when slump conditions appeared to be imminent in the country.

Before passing any scheme the Planning Council would see that the non-productive ones were balanced by an adequate number of productive works.

The management of municipal affairs is, speaking generally, pretty bad. The personnel is constantly changing and is, for the most part, quite unused to the work it is called upon to initiate and control. All that has been said about the parliamentary system can be said again, with additional emphasis, about municipal affairs.

Quite recently a number of experiments have been tried in the U.S.A. These have been to try running a municipal council as a business firm would be run, appointing the equivalent of a managing director.

There is much to recommend this principle. A class of managers would be created who would pass from post to post according to the ability they displayed. They would be well-paid men, of independent character and initiative.

They would report, as a managing director does, on the balance sheet presented by the municipal chartered accountants.

Such Municipal Manager would not attend council meetings, but schemes would have to be sanctioned by him as financially possible before he put it into operation. The examination of tenders would be under his control. Many abuses would be avoided if this was agreed to. All by-laws controlling his action would be on a uniform basis, approved by Parliament.

Incidentally our "tendering system" is a complete contradiction of our supposed social economy. It asks for the lowest tender, and places firms in competition to secure it. In other words, it asks employers to save on the cost of production, presumably by using less or cheaper labour, and often goes abroad if they have not cut sufficiently.

The Municipal Manager should, in fact, make it his duty to keep taxation as low as possible and efficiency and progress as high as possible.

His staff being entitled to the subsistence and retiring pension, the Municipal Manager would have no hesitation in dismissing inefficient employees any more than Government officers in the Civil Service would also be dismissed for incompetence.

Working along these lines one large city in the United States has not only entirely cleared itself of a £100,000 burden of debts, but now runs the entire municipality on up-to-date lines, keeping well within its income. During the same period it has built for itself a city hall, two public golf courses, several large parks and playgrounds, and a 300-acre airport.

(ii)

What is profit in industry? It is the excess of returns finally received over the expenditure that has been necessary in making and/or selling the goods in question.

When a business man has paid for his raw materials, his labour, and the wear and tear (depreciation) on his machinery, together with other overhead costs (rent, rates, taxes, etc.)—the difference between that total sum and the amount his goods fetch on the market is his profit.

The trouble is that after raw material, depreciation on the machinery and labour, all of which vary largely with the number of goods produced, the other charges are largely *fixed*. That is, rent, rates, salaries of office staff, etc., do not vary much, if at all, if one's output is great or small.

If output is great, this fixed charge is divided among a large number of goods and means a very small proportion of the selling price only. If the output is small, it means that this fixed charge is a large sum added to the price of such goods.

Henry Ford estimated that if he sold a certain very large number of cars he could do so at a reduced price and still show a profit. In those days the public was paying around £600 for any car. Ford decided that if he made them in sufficient quantities he could sell them at £150. In this way both Henry Ford and the public gained.

Had he sold only half of the number he calculated, however, he would have been faced with a very heavy loss. The smaller number would have had to carry a higher proportion of his overhead costs, distribution, advertising, and other expenses on each car's price. It

would not have been possible to sell them at £150 each except at a loss.

If a producer makes a profit it means that a number of people are employed and a large wage bill is met each week in the process of buying their services in the production.

The profits of the factory are small in comparison to the wage bill. At the same time works are heavily taxed by the Government and by the local authorities, whereby social services are kept running to benefit the employees still further.

If the industrialist makes a loss it must be met out of his own capital. No income tax is paid if the loss is made, but, loss or no loss, he has to pay municipal taxes and other fixed charges.

Provided that our industrialist uses his profits to build up his business, or pays it away to his shareholders who spend it, he is doing good. Money is circulating. It is being distributed to people who buy clothes and cars and food and other things, and so keep the wheels of industry running.

If he takes a good share of the profit himself personally, that does no harm, so long as he spends it. He may buy a farm for himself and take to breeding cattle. He may make experiments and improve the breed.

He does not run it himself, of course, nor make the experiments himself; he pays other people to do so. Money circulates.

He can only wear one suit of clothes at a time. If he has more suits, he has paid labour to produce them. He may have dinner in a dinner jacket, served by a butler in tails. His meal may be a chop and asparagus, served on the best porcelain. It is all paid for, labour is used, and the money is circulating.

But this profit and the stability of the concern is severely hit if local rates are increased.

The pooling of municipal taxes, their unification into a common fund, and their standardization should receive close attention.

In many industrial areas the main profits, which logically should enrich the authorities in such areas, are assessed in other districts where the financial centre of the trade is situated. This is unjust and needs rectifying, possibly by the pooling system referred to.

CHAPTER XIII

UNEMPLOYMENT

(i)

To find a logical reason for the world's outlook on unemployment would be hard.

We set out deliberately to invent and build machines to do our work for us. Impatiently we awaited the time when scientists should have split the atom and expected as a result a release of power enough to make the bulk of the world's work unnecessary.

Now that we have secured a large part of our wishes, we find the result we have deliberately arranged ruinous to us. We are unprepared for it. We are like the man who prays that his football coupon will win him a fortune. If it does he may be ruined as a result. He may neglect his own business, letting it go bankrupt, while he squanders his winnings.

The wine is too heady, he cannot adjust himself.

It is a similar lack of adjustment that causes so much trouble around the question of unemployment.

In a leading article in *The Times* of November 21, 1928, the position was clearly put:

> "It is important to bear in mind that an industry may decline in its capacity to provide employment while increasing its productive capacity."

That is exactly the position. What other result could be expected from labour-saving machinery and all the inventions of the modern age?

When there were not enough goods to go round, when

food was scarce and clothes were the result of much hard toil, the unemployed man was objectionable. He was a parasite. Although there was not enough to go round, he tried to get himself kept, without helping in the work of the community. There was work waiting for him and he was a slacker.

Nowadays we just refuse to recognize the boon that our Inventive Age has brought. So many economists, otherwise clear-headed, continue to harp on the disaster of unemployment.

What do they mean?

Are we enslaved to a word? Is to have too much of everything a curse? Only if you do not know what to do with it. Is producing a tremendous quantity of goods with very little work a disaster? Only if you are not prepared to dispose of some of them to those who have not been needed in the process of production.

The Macmillan Report speaks of unemployment as "a form of economic waste, by its very nature irrecoverable." By this they meant that labour was to be regarded as a commodity and, if not used—if the worker was unemployed—so much labour was wasted.

What a strange outlook!

It might be more truthful to say that *all labour was waste*, if we could get all the goods we needed by harnessing the forces of Nature. Work is not an end in itself. It is right that every man should do his share, but the less we all have to do the more time shall we have for leisure, for culture, learning, and the Arts.

(ii)

Great Britain and other countries are nowadays employing a large section of the community to manufacture

armaments on a huge scale. This means much work in many subsidiary trades. Those not engaged on this work are supplying all that those hundreds of thousands of families working on armaments require for food, clothing, housing, and so on, with ease. They are also supplying themselves.

Does our attitude to unemployment mean that, if we stopped making armaments to-morrow, those same hundreds of thousands of families would have to starve, or nearly starve, because they were no longer making what we did not want? And must others, who are now working to produce food and clothing for them, become unemployed?

That is the exact position. Whether these hundreds of thousands of people are employed on armaments or no, the other section of the community, who are keeping them at present, can go on doing so. In any logical society an arrangement could be made for them to retire at a certain age, or to take long holidays, and be relieved by those whom they are keeping.

Eimar O'Duffy describes the situation in *Life and Money* like this:

> "Our unfortunate friend's position may now be summed up as follows . . . he is hungry and ragged because he cannot pay for sufficient food and clothing . . . he cannot pay for these because he is not working . . . he is not working because his work is not wanted. His work is not wanted because all can be produced—without his assistance."

What shall we do about it? Shall we scrap our labour-saving machinery? It is as sensible to suggest that we abandon fertile soil and only grow crops on the most barren parts of the country, so that we produce as little as possible with the greatest amount of labour.

A logical conclusion to such a policy would be that we

should have to become self-supporting, producing all our foodstuffs and other goods by everyone working from youth to old age for long hours, like the feudal serf. Our population would have to be reduced. We should not produce any industrial surplus for export to exchange for foreign-grown foods or raw materials. We should drift back to the Middle Ages, living on salt meat and pickles all the winter, with no health services, lighted streets, sanitation, or any of the other amenities mass production has made possible. The clock would be set back to the centuries of leprosy and want.

Nowadays a hundred men can build a machine or factory that will make the work of thousands of men unnecessary.

On the other hand, the low cost of the products may add so much to the possible demand for the goods that these same men may be called back to work again. This means that, as a result of labour-saving machinery, everyone is now able to enjoy what at one time were the privileges of a favoured few.

Look at the millions of men and women all over the world engaged in manufacturing motor cars. If men like Henry Ford had not worked out the mass production of cars, selling at £150 what had previously cost £600, the industry might still be in its infancy. All these millions might never have been drawn in to help make cars for the common man.

(iii)

We are producing more and more goods without the need of work or workers. What is more rational than to pension off certain categories whose labour is no longer needed? In doing this we can take into consideration their past services and see that they have a pension with

which to secure a share of the plentiful goods younger men than they are producing.

In other words, let us organize a comfortable and honourable leisure for those who have fulfilled a reasonable period of productive employment.

Let us abolish unemployment by organizing a large leisured class of those who have already done their share. Let us ensure security for the middle-aged, with all the possibilities for a cultured and educated existence.

Let us abolish this fantastic notion of "unemployment" and the inevitable poverty of the mass of the people.

Just for a moment try to imagine the full tragedy of our miserable civilization. Old men, beyond the age when work is possible, after a lifetime of useful toil, are given a pittance of ten shillings a week.

Middle-aged men, never free from the fear of unemployment and want, work many years longer than is necessary in a world of plenty, keeping boys out of jobs they could do better, trying to save enough money for their old age.

Young men are kept in enforced idleness, with half as much money again as the old men, learning nothing, getting no training, no discipline. They are without prospects, getting into trouble and drifting into bad company and bad habits. The list of "unemployed" swells and they rapidly become unemployable, while the old men, who built the country, are getting hungry and ragged upon the industrial scrap-heap.

In Chapter X we dealt with the question of pensions and suggested that a subsistence allowance should be the right of every citizen, so that no one needed to starve. Under such a system the word "unemployed" would disappear from common use and, at last, from the dictionaries. There would be no such thing.

Work, in general public service, either constructive or on the land, should be part of the early training of our youth, of either sex. In this they would be contributing to the amenities and their own future prosperity.

This idea of youth taking an early training in general manual work, without class distinction, is not new.

In Denmark, for instance, this is the rule, as shown by this interview with Count Reventlow that appeared in the *Sunday Express*:

> "Feel those muscles! They're like whipcord, aren't they? And do you know why? In my country there is a rule that when a young man comes of age, no matter what his position, he must work for a year as a labourer. . . .
>
> "For a year we wore the same clothes as the workmen on our estates. On our feet we carried heavy clogs that gave us terrible blisters at first. On my back I had to carry the same loads as the others.
>
> "I always remember the first day I was given a great sack of corn and ordered to carry it up into the loft of the barn. I tried the weight and then I looked at the men around me, waiting for me to give in and be a weakling. Something inside me said 'I'll get up that ladder or die.' I got up. From that moment the men accepted me as one of them. We shared our cigarettes, our pleasures, our jokes."

Such a scheme would contribute to supplying the bare necessities of the community. But people would want more than that. That would be obtained from the work of those who had completed their early period of national training. All the incomes that were derived from this subsequent work, however small, would be taxable, and on it one's future retiring pension would be based. The more one earned—and paid in taxes—the higher one's pension above the subsistence level.

All able-bodied men below a certain age would be

expected to work. There would be three kinds of work open to them:

(*a*) The ordinary employment of their choice.
(*b*) "Request work" of national importance, provided by the Planning Council, temporary or otherwise.
(*c*) Work of a low-grade national importance, with small pay. This would be for the slacker who was physically fit. He would be quickly identified when he drew his subsistence pension, and also provide work for prisoners.

The Planning Council would be constantly producing new schemes of general value. They would clear slum areas and replan our cities. They would assist shipping and keep the shipbuilding industry busy.

The years of service men gave doing work of national importance would be regarded as a duty and an honour. If they returned to it because they had lost their jobs, there would be no stigma. It would not be "task" or "test" or "relief" work. It would be nationally valuable work.

You might be unemployed or employed in a job of your own choice: that would depend on your ability. But you could always get *a job* and so contribute to your ultimate pension.

If out of work you could at once have an "on demand" job enabling you to still be contributing to your ultimate pension. If you did not want to work and were over a given age your subsistence allowance would keep you from being a beggar or a thief.

We should not need to worry about foreigners, refugees, and the like. They would be set to work improving the amenities of Great Britain.

Pensions would take out of the employment market

those whose work was done, and would put into the market those young persons whose work was yet to do.

(iv)

The first necessity in planning such a social system would be to see that our food supply was assured and that arrangements had been made (as outlined in Chapter XVII) to give farmers a proper inducement to grow as much as possible, with the price of foodstuffs ensuring good wages for the agricultural labourer, whose work is, after all, the most essential in the country.

What further foods and luxuries we needed would have to be balanced by our exports. This, too, would be the duty of the Planning Council.

As labour-saving methods improved, there would be an increase in the non-producing, distributing side of the industry. The amusement and social sides of life would also absorb more and more workpeople.

Shops might remain open as long as they choose, subject to safeguards as to the hours worked by individual employees. In this way more people would be employed in them and buyers should also increase, because of the greater ease in reaching shops. It is extremely difficult to understand why workers should find all the attractive retail shops closed when the day's work is over. Shop assistants whose half-day comes when the whole district's shops are closed never have an opportunity to shop at all.

Dread of the "sack" would be more limited to the employee, unless the job was one of outstanding comfort and remuneration. For a man to be told after forty years of service that a younger one was being brought in to take his place would no longer have its terrors—even if it had its regrets.

(v)

Some of our more original "thinkers" have suggested birth-control as a cure for unemployment. Mr. Harold Cox wrote some years ago in the *Daily News* (August 8, 1929):

"The only hope for many of our industries lies in improving their methods of production, which in practice means securing a bigger output with less labour. Thus from an industrial point of view, we want fewer not more people."

What a foolish argument! What superficiality! Had Mr. Cox no thought for the people displaced by machinery? Had he no understanding that increased production needs more consumers? How can he hope to increase production and kill the consumers at birth or before? Is there anything more illogical?

Mr. Baldwin had a similar idea. "That difficult problem of the boys will help to solve itself in the next few years, because of the fall in the birth-rate."

What statesmanship!

People are not only producers. They are consumers and *modern industry needs* consumers. Birth-control means fewer consumers.

In these days birth-control is practised to a large extent because of fear; men and women hesitate to have children. They are not sure that they will be able to bring up a large family. They are not even sure that their children will be able to get jobs when they are old enough.

Under the pensions scheme we have outlined, every child would be provided for with a subsistence pension, and there would be work for all available.

Another angle on the same birth-control theory is found in those who want to cure unemployment by emigration. They imagine that, if we pick up our unemployed, put them on ships and deport them, as we used to deport

convicts, we should become prosperous. It is the same "fewer people" notion.

Between 1851 and 1916 4,367,302 emigrants left Ireland. It did not make Ireland prosperous. It did not cure unemployment. On the contrary, it tended to increase it by removing consumers. The size of a country's population has nothing to do with unemployment. Tasmania has unemployment. New Zealand has unemployment. Australia has unemployment, although it is more than thirty times as big as Great Britain and has only the population of London.

What do these birth-control and emigration experts say about the millions killed in the Great War? Did that cure unemployment? Without the war, should we have had a million more unemployed?

Emigration is of great value where a country has more people than it can possibly support, and it is valuable as a means of developing backward countries. It is not, however, a cure for unemployment.

We must realize that employment is created by buying. We do not live by making another man work, but by consuming the goods. So long as the goods are there for the community to consume, the question of work is not the crucial one.

Unemployment and currency are indivisible problems. Lord Melchett says:

> "The rules of the House (of Commons) are such that a debate on unemployment usually rules out the discussion of currency questions. Our political leaders rather naturally prefer to stifle discussion on subjects they do not understand" (*Modern Money*).

Until these leaders realize this fact, we shall continue to see such news items as this in the daily Press:

> "Mr. Ernest Brown, Minister of Labour, will to-morrow see a deputation of M.P.s and representatives of local authorities

in the distressed areas, to discuss the possibility of the State accepting complete responsibility for relief of the able-bodied unemployed."

This is in 1938. In 1948 we want to have something like this:

"Mr. H. Jones, Minister of Labour, will to-morrow receive a deputation of M.P.s and representatives of distressed areas, to discuss the possibility of the State lowering the honourable retirement age, with an increase in the pensions basis, thus accepting complete responsibility for the great increase of production by the able-bodied employed."

What a great difference that would be!

CHAPTER XIV

COMBINES

(i)

OUR modern civilization has been built upon a system of competition: men vieing with each other to outdo one another. That has been the great driving force towards better goods and more of everything. Whilst the demand was greater or as great as the supply, the community and the world benefited.

But of late this competition between men and between firms has given way to combines, mergers, trusts, price-rings, and output restrictions. Other measures have been introduced to eliminate this competition, which reduces profit for the individual concern, however much the community may benefit by it.

Under these new conditions there is no check on price. With all the producers in a "ring," there are no competitors to undercut those who set their price when it allows too great a profit. The basis of most combines and rings is generally to see how much they can get for their goods, i.e. to charge "all the traffic will bear."

The usual method is that the inefficient works is given, with all the other works, a guaranteed sales percentage, or "quota," of available trade, at a "non-competitor" price. They all have their production cut down to a "quota" and agree not to sell below a certain price. The works accordingly have no inducement to become or remain efficient.

An internal reorganization of our economy can have no lasting effect if we do not take into account the question of combines and amalgamations.

The manufacturer himself looks at it from this point of view. He finds himself being undersold on the market. So he considers combination, amalgamation, or price-fixing.

To the extent that he is efficient and the competition he is facing is due, as sometimes happens, to some rival firm with no proper knowledge of costs that is heading, in fact, for disaster, there is ground for our sympathy with him.

But where he is inefficient, and his wish to combine or fix prices is so that he can hold up the market-price of his products, so as to secure a profit even with his inefficient methods of production, then the public has every cause to complain and demand legislative measures to prohibit the "ring."

But price rings or combinations arise from a variety of causes.

It may be that a new works is opened and "cuts in" to secure a good share of the trade, price, until their object is attained, being of secondary importance. Or there may be works, with little or no real knowledge of their production costs, who are cutting prices.

Or it may mean that one more or less uneconomic concern, with the deliberate object of forcing the formation of a combine, cuts prices below an economic level. In this way they secure a good proportion of the trade and then readily fall in with a proposal to combine—subject, of course, to receiving such a quota as is consistent with the share of the trade it had acquired by the price-cutting campaign.

Such concerns have, in fact, gambled on creating a "nuisance value" of themselves. Once in the Association and with a comfortable guaranteed proportion of the entire trade, they are vociferous in their support of high

price, to recompense them for the losses they have made whilst cutting.

Brought together to put an end to apparent abuses, the tendency then swings to the other extreme, creating another abuse. Prices are forced up to give a handsome profit to the least efficient producer.

Where a combine manages to get complete control of some trade or manufacture, both public and employees have a right to demand protection against profiteering. They have a right to see that prices are not fixed and quotas guaranteed so that the least efficient producer in the combine can still make a profit on his inefficiency.

An example of the sort of thing we mean can be seen in the resignation of the Stanton Ironworks Company from the "Pig Iron Ring"—the Central Pig Iron Producers' Association. This is the biggest producer of foundry pig-iron in the country, with an annual output of around 600,000 tons.

The Stanton Ironworks left, it is rumoured, because they wanted an immediate reduction in the price of pig-iron—around 30 per cent.

It is reported that the Import Duties Advisory Committee, a semi-Government committee, by the way, pressed them not to resign, as their action might bring down the price of other iron and steel goods.

It is obvious that some less efficient concerns were trying to keep prices up, making profits out of their inefficiency. Stanton were able to make a profit at two-thirds of their price! Is this sort of "ring" in the public interest?

Where manufacturers aim at combination to secure export trade by joint, co-operative efficiency, every class of society should give them their sympathy.

But it is quite clear that the present uncontrolled and

irregular organization of combines, temporary "rings," cartels, and the like, should come under some form of Government legislation. Its aim must be to secure the highest efficiency, in the interests of the country as a whole, and the protection of the Public and Labour. The present situation is dangerous from every point of view.

(ii)

The general public does not realize how our industries are rapidly coming under the control of a handful of individuals. Recently the *Daily Express* has published a series of charts, showing how our trading companies are interlocked. In a series of only fifty companies a capital of as much as £570,000,000 was involved.

Nor does the general public realize the extent to which the Bank of England is getting control of industry, or rather how the biggest industrialists, through their directorships of the bank, have, in effect, thousands of smaller industrialists under their control. Consider what power lies behind such directors as Sir Josiah Stamp, of the Railways, Sir Dudley Docker of the Midland Carriage and Wagon Company, Sir Andrew Duncan of the Steel Federation, etc.

The recent control by the Bank of England of the Richard Thomas Steel Group as noted in Chapter VII was an illustration of this sort of thing. A smaller firm, in a similar plight, would have been left to file its petition at Carey Street.

While one can deplore Government interference in industry, Government co-ordination is essential.

To ensure progress it is necessary that free competition should still be possible, but that such competition should not be irresponsible. Uneconomic mushroom concerns,

heading for bankruptcy, should be prevented from price-cutting. Sir Basil Blackett says, in *Planned Money:*

> "Industrialists would have no difficulty in accepting the principle that, in return for the grants of rights, which would generally include at least partial monopoly within defined limits and some power of discipline over minorities inside their industry, the community is fully entitled to be safeguarded against exploitation."

The Government should take action along these lines. Firstly it should require all attempts at amalgamation, combination, or price-fixing to register. No obstacles would be put in the way, so long as certain conditions were observed. Within limits, a recalcitrant minority would have to conform to the majority wish to combine.

At the same time, no pressure would be placed on manufacturers to force them to come together. But should they do so the Government department concerned would register them, and give the combine a legal standing, so long as it was satisfied that the principle did not oppose the welfare of the country. This legal standing would give the combine a greater stability and more control over its constituent parts.

Similarly, any combine or price-fixing arrangement that had not been registered would be illegal.

Selling prices would be officially sanctioned, BASED ON THE COSTS OF THE MOST EFFICIENT PRODUCER, with the required standard of labour, safety, and other conditions.

These costings should be under the control of a cost accountant, selected by the combine from a panel of cost accountants registered for this purpose.

Accountancy is one of our most important factors in modern life and financial system, and it can yet be a

safeguard behind our currency. Cost Accountancy can be the safeguard of our competitiveness. It is high time accountants received their Statutory Registration Bill.

By competitive examination or by agreement a panel of Cost Accountants could be drawn up by a recognized accountants' organization and approved by the Board of Trade. A combine would have to choose from this panel the accountant to investigate their costs. This cost accountant would be a public servant, acting on behalf of the public and the Government. But he would be paid by the combine.

He would spend as much time at the different works concerned as he thought necessary, and he would stipulate the way in which cost returns were to be made by the different concerns. This would ensure uniformity. He would agree to the manner in which varying expenses should be dealt with, so that costings of all firms were on a uniform scale.

Once he had been selected by the combine he could not be removed by them except by the consent of the Board of Trade.

The combine would be entitled to place a percentage *on the lowest costings*. The Government, with the detailed costings of every firm before them, certified by the accountant, would agree to this percentage profit which could safely be generous, as it would be based on the lowest costings.

The result would be the reverse of present-day combination. To-day the least efficient producers are taken as the basis on which the sale price of all producers shall be fixed. The efficiency of the better organized concerns receives little incentive and the public are "milked."

This is what it would look like. A cost accountant

would produce figures for a certain product, something like this:

	WORKS						
	A	B	C	D	E	F	G
Costs ..	9/–	11/–	8/–	7/4	9/9	10/6	10/–

On the existing combine basis the price would be fixed on B's price of 11s. allowing him a profit. If there was no combine, B would ultimately be driven out of business, either by getting no trade at his price of 11s. plus profit, or else he would be bankrupted by price-cutting against his competitors, in ignorance of his own costs. Selling, that is, below his costs. The number of firms that do not know their own costs is surprising.

An equitable arrangement might be to allow 25 per cent on 7s. 4d., that is 9s. 2d., as a fair price. Factories B, E, F and G would, of course, be knocked out of business, in which case D, C and A would expand production and bring their costs still lower.

But it would be the duty of the accountant to regularly distribute the detailed works costings to all the members of the combine, so that they could compare the figures of all the different processes with other works, under the headings and conditions already dictated by him. In this way everyone would know just where he was wrong.

As a result, those whose prices were higher would see where the needed adjustment could take place.

From this information one of them, trying to get as much of the 25 per cent profit as possible, might be able to reduce costings to 7s. If this happened the consumers would get the benefit by having the market price reduced from 9s. 2d. to 8s. 9d. A combine on this principle would ensure progressive efficiency with a fair profit to the efficient.

The exchange of costings between different firms in the combine would be a great advance. The insularity of British concerns would disappear. The tradition that leads manufacturers to keep their costings (if, in fact, they know them) a dead secret, would be ended. If factories wish to carry on with their insularity, and in open competition with one another, no pressure would be put on them to combine, but the loss would be theirs.

Such combines would not be allowed to restrict output and would have to guarantee the payment of agreed wages to see that all proper conditions of quality in their goods, safety of working conditions, and so on, were met.

But restriction of output means reducing employment, increasing the unemployed, and restriction for the country as a whole. It also means the refusal to give the public the benefit of the lowest costs. Nowadays State control of production generally means enforced restriction of production. But combination on the above plan would leave no room for restriction, as profits would be agreed upon, and the factories would all make as much as they could sell at that price. The lower they brought costs the more sales they would get.

Nothing is more harmful to the community than a price fixed at a level that may allow a good profit to the least efficient works but is uneconomic to the users of the product. The case of the pig-iron "ring" is an example of this, bolstered up by the benevolent support of the Government Imports Duties Advisory Committee.

Steel prices which were advanced 38 per cent from 1933–7 come under the benevolent control of the Imports Advisory Committee. Prices which, with a free competition, or with a fixed price *based on the lowest producer*, would have come down early in 1938, are maintained

until the early part of 1939. The effect on our general engineering export trade is grave, and has completely paralysed our shipbuilding industry. It is common knowledge that the steel industry heavily overbought scrap steel at exorbitant prices, and that their costing system takes such unlucky speculation into account instead of the market value to-day. The principle of price fixing to give the least efficient concern a profit is bad economics, adversely affecting numberless other trades which regard steel as their raw material.

At the same time, protection must be given against foreign competition. If we can ourselves produce enough of any commodity, it is gross stupidity to allow another industrial country to sell us these goods. It means that we have to export our own products elsewhere or stop production. It is uneconomic from every point of view.

Writing in the *Daily Mail* on June 3, 1938, Viscount Rothermere said:

> "How many English workers live in English homes? Every year this country imports vast quantities of building materials, including window and door frames, from abroad.
>
> "From countries like France, Holland, and Belgium come bricks and tiles into this country. Last year over £574,000 was paid out by Britain for these imports, which British works could have well supplied.
>
> "Of cement for building and engineering purposes we imported 169,390 tons, valued at over £230,000.
>
> "Stones and slates wholly or mainly manufactured, and slates for roofing accounted for another payment of £592,000.
>
> "This money—over £1,390,000—might have gone into the pockets of British trade unionists and shareholders."

Legislation should have, as its objective, the aim of securing to this country all trade we can efficiently carry out, meanwhile protecting the public as far as prices are

concerned. An efficient concern should, at the same time, be assured the full benefit of its efficiency.

(iii)

We are a very highly developed country from the aspect of social legislation. This legislation is a fixed charge on production—an overhead cost. It is a charge that increases if looked on as a percentage of cost, if trade is reduced in quantity. If the quantity of goods produced by this country is cut to half, each item has to bear double the burden for popular education, health, sanitation, and all these very desirable things.

We cannot expect these very pleasant amenities and our, on the whole, very good social and factory conditions to go on without being affected. Manufacturers must therefore be protected against goods that are produced in countries where conditions are not so good, and where these overhead charges are not so high. Alternatively our social services must be reduced.

The new Factory Act will place still further burdens on industry.

On those frequent occasions when the President of the Board of Trade dishes us out a homily on the need for securing foreign trade to balance our imports, one wonders whether he appreciates how much extra will be added to our production costs as a result of this Act. One wonders, in fact, whether there is co-ordination between our Ministers, if they realize the real effect of what the other is doing.

Goods will inevitably cost more, and when goods cost more, sales go down. And when sales are reduced, fixed charges have to be divided among the few quantity sold, which again puts up prices.

Under these conditions it is logical for the Government to take this attitude: an article that we can produce, in all efficiency, and sell for 9s. 2d., should not be imported from abroad for less than 9s. 2d.

If we have a two-currency system and these foreign goods are sold to us at 9s. 2d., because of their superior quality or for some other reason, that foreign country will receive so many nine-and-twopences in "External Currency." They will then either give us the goods for nothing, or have to help our exports by buying the same value of goods from us with the "External Currency" they have been given.

We have already travelled a small distance along this road, by fixing varying customs duties to be paid for certain types of favoured steel goods.

This procedure gives a logical basis for dealing with foreign imports. If legislation imposes social reform on industry, it is only right that it should safeguard industry from the consequences of such legislation as far as its competitiveness is concerned.

Customs duties are no longer fully effective for this purpose, since foreign Governments have adopted the policy of subsidizing their exports to the amount of the duty they have to pay—and more.

An attitude such as the writer has outlined would put an end to "dumping." The public would be protected by the competition in costings and we should have the satisfaction of knowing that the higher price the foreign manufacturer secured for goods sold to this country would be in External Currency.

He would thereby be getting *claims* to goods of ours. This currency would be either so much waste paper, or else be spent in helping our export trade.

The competition that would remain between ourselves

and foreign manufacturers would be one of quality alone.

(iv)

We live in an age of machinery. It must be the policy of any realistic Government to see that no laws or regulations with which we are encumbered should cause us to fall behind our neighbours in this respect.

The devastation of the World War gave France and Belgium an opportunity to re-equip their works with new and up-to-date machinery. That was one of the few ways in which the war benefited them. In Germany the post-war collapse of the mark allowed factories, docks, harbours, and municipalities to relieve themselves of debt—of capital indebtedness, in particular—the cost of old and antiquated machinery—for a few pence. Loans from abroad—never repaid or likely to be repaid—helped them to reorganize their factories with the most up-to-date machines.

Young manufacturing countries like Japan start off with the best equipment that can be bought, worked by low-paid labour for long hours. In America old machinery is written off the books in a very generous way, so that it can be continually replaced with more up-to-date plant.

Not so in Britain. Here we are seriously handicapped by the official attitude, allowing only a small part of the capital cost of machinery to be written off every year. Plant remains on our books at a high cost which is a big deterrent against scrapping it. F. Soddy argues that capital in plant is dead, and should, by taxation methods, be so dealt with.

If a basis was adopted on which new plant could be written off within, say, three years, the revenue of the

Government would be low in the first few years as a result of its being "written off" instead of included as an asset. But it would soon more than regain that drop not only by the greater efficiency of industry and the gain to trade, but also from taxes on the profits of the machinery manufacturer whose output would be stimulated.

We should go further than this. We should agree to the "writing off" of fixed amounts annually, giving the factory the alternative of paying that sum as taxation or using it at once to buy new machinery.

The Government is aware that something is wrong. This is obvious from the small increase, long overdue, in the amount that is allowed to be "written off" plant and machinery in the 1938 Budget.

But why tinker with the problem?

Either it is right or wrong. If the principle is right, let us go the whole hog.

Had the Government of the 1929 boom done something of this kind some of the profits of that prosperity would have gone to new plant. The boom would have continued longer and we could have tackled the slump with up-to-date machinery.

CHAPTER XV

SHIPPING AND TRANSPORT

(i)

TRADE follows the flag. That is an axiom of politics and commerce. Establish a line of steamers on any new route and trade begins. An exchange of goods must necessarily arise all along the route, both directly and through the trans-shipment of goods for other markets.

Create roads and water supplies, and new towns will arise. Create railways, and new cities come into being. Yet we find these necessities of modern life and commerce depend largely upon whether certain individuals with money to spare can see a profit in them. If not, no new line of steamers, no new roads, and no new railways. No new trade, no new towns, no new cities.

Let us assume that the average charge for freight is £1 a ton, and that the average value of a cargo is £20 a ton. We can then see what a serious situation is created if a shipping company closes down a particular route as non-economic because it does not make a profit on that £1 freight rate.

Assuming the route was covered by an 8,000-ton steamer, doing only six complete journeys a year, i.e. six out, and six home, the closing down of such a route affects or eliminates £1,920,000 worth of trade per annum.

Apart from this very remarkable state of affairs, the failure to start new routes may prevent the development of many world and national possibilities.

State-control is no remedy. A State can never have the initiative and the resource of an individual spurred on by the hope of profit.

There is, however, a very definite argument in favour of State participation (not control) in guaranteeing a return on the capital employed in new and improved shipping ventures. Such guarantees could be on a declining scale after an agreed period, and would be a highly profitable undertaking for the community. More goods would be carried, serving as a basis for greater employment and taxation. More ships would be built, meaning more employment too.

Lack of precedent, the usual deterrent of the British, cannot be pleaded.

Roads have been provided at the expense of the community and the motor transport firms make a handsome business out of it—some of which profit finds its way back to the Treasury in taxes, and more by way of the Road Fund.

We financed a part of the cost of the *Queen Mary* and have given assistance to tramp-shipping.

These latter precedents, however, were not based upon any plan carefully thought out. They were expedients to meet a political need in some cases, and to assist employment in others.

To-day, on the other hand, we are faced with rivals in other countries who are giving direct subsidies to shipping. And the result to us has been disastrous.

In 1914 Great Britain held 40 per cent of world tonnage. In 1937 it had dropped to under 27 per cent. In December 1911 the British share of merchant tonnage under construction was 64 per cent; in December 1937 it was 38 per cent.

The following figures, extracted from the *Shipping World*, Aug. 24, 1938, from the current Lloyd's Register, show the reduction in tonnage under the British and other flags in 1938 compared with 1914.

TONNAGE, 1938, COMPARED WITH 1914

Plus on 1914

U.S.A.	6,909,557
Japan	3,298,326
Norway	2,655,822
Italy	1,828,517
British Dominions	1,412,069
Holland	1,380,302
Greece	1,068,408
France	958,497
Sweden	555,690
Denmark	359,126
Spain	64,037

Minus on 1914

Great Britain and Ireland	1,216,685
Germany	903,063

The figures look bad enough in themselves, but how much worse when we deduct the vessels whose only claim to "British" is the flag they are permitted to fly. Vessels that cut our freight rates by the use of underpaid labour and accommodation that would not be permitted here. The German and British figures must be read, taking into account that Germany lost practically all her Mercantile Marine, as a result of the Peace Treaty.

In 1914 no great advantage was apparent in registering under the British flag. To-day, with war as a daily topic, matters are different. It means that, as a last resort, we may be involved in a war as a result of a "prestige necessity" to uphold the sanctity of the British flag.

In the *Evening News* of August 18, 1938, is a report of the entire crew of the British (!) ship *Dover Abbey* being charged with mutinous conduct. This crew of 11 consisted of:

4 Yugo-Slavs	3 Roumanians	2 Chinese
1 Portuguese	1 Moroccan	

In the *Daily Telegraph* of the same day is a letter from Cyprus giving the crew of a vessel that had just registered inwards:

	Crew
Master, Argentine	3 Hungarians
1st Officer, Greek	6 Roumanians
2nd Officer, Greek	3 Palestinians
3rd Officer, Greek	8 Poles
1st Engineer, German	2 Greeks
2nd Engineer, Roumanian	2 Germans
3rd Engineer, Greek	1 Turk

and this was entered as a British vessel, in defence of which you may yet be called upon to shed blood.

A return to the Navigation Acts, under which British mercantile shipping expanded itself and wherein 75 per cent of the crew had to be British, would seem to be a logical necessity.

The Chamber of Shipping's annual report 1936–7 says:

"The effectual tonnage available for carriage of foodstuffs, raw materials, and troops in the event of war is only 14,000,000 gross tons, compared with 17,500,000 gross tons in 1914."

The number of vessels owned in the United Kingdom in 1914 was 8,587, compared with 6,903 last year. The 1937 figure includes 394 tankers. If we exclude these it shows a drop of nearly two thousand vessels, or 25 per cent.

The Chamber of Shipping comments:

"These facts are disquieting when it is remembered that 7,000,000 gross tons of shipping were sunk in the Great War and that the United Kingdom population has increased from 45,500,000 in 1913 to 50,000,000 in 1937."

The same situation is reflected in our shipbuilding trades. The shipping ordered from British yards for the quarter-year ending June 1937 was 250,000 tons. For June 1938 it was 50,000 tons!

We have during this period taken orders from foreign buyers for £3,500,000, but our own shipowners have sent orders for ships to be built in foreign countries to the tune of £5,000,000. *For the first time in the history of British shipbuilding we have an adverse balance!*

German and Italian shipbuilding costs are based on subsidies.

The use of Internal Currency, divorced from External, would make the internal cost to us of much less importance, and any such purchases from abroad by our shipowners would automatically establish a sale of British goods to an equal amount to that paid for the ships.

On the other hand, it would pay producing countries to buy their ships here, even at the higher prices our social scale and wages call for, inasmuch as they would be assured of a market for their goods to an equivalent amount. And they would not easily find such a market elsewhere.

Apart from this loss in world tonnage, there is the question of speed which is being considered much more seriously abroad than it is here.

Referring to the position of shipping, Collin Brooks writes:

> "Artificialities of various kinds have been introduced by our successful competitors; we must meet them with similar artificialities in aid of our own workers. Shipping in particular demands positive aids.
>
> "Into the ports of South America, the Far East and the United States, both Germany and Italy send passenger liners that outrival our own in speed and comfort. On some Imperial routes, Japan has received 60 per cent to 90 per cent of our old trade" (*Can 1931 Come Again?*).

The only comment I should like to make on this statement is to draw attention to its restraint.

Here is another angle on the same subject, taken from *Shipping*, February 1938:

"Measures contemplated to improve the Italian mercantile marine have recently been made public and include the laying down of 44 ships of about 250,000 tons; 13 of 82,000 tons for the Lloyd Triestino, 17 of 43,000 tons for the Tirrenia Company, 9 of 86,000 tons for the Italia Company, and 5 of 39,000 tons for the Adriatica Company. In addition, the *Roma* of 32,000 tons and the *Augustus* of 30,000 tons are to be modernized.

"The aim of the Italian Government, as expressed by the Under Secretary of State for the Merchant Marine, is to ensure that freights earned by Italian ships amount to at least as much as paid by Italy for shipments carried in foreign ships. For this purpose, an eventual increase of one million gross tons is envisaged. It is interesting to note that such an increase would mean practically a third of the present Italian fleet (3,174,000 tons); also that at the present moment Italy is building no more than 107,000 tons gross, of which 94,000 tons are for registration in other countries."

As a constructive means of meeting these foreign subsidies I would suggest that the Government, on the basis of a two-currency system, should give a guarantee in Internal Currency on all approved shipbuilding or improvements. The guarantee might not be called for, but its promise would release the necessary capital and we would create enormous shipping and trading assets at very little cost to the country.

The procedure could be along these lines. The Government would receive proposals for establishing new routes or the improvement of old ones; these proposals would be dealt with by a competent body created for the purpose. The scheme, if approved, would be released after approval at a speed that would keep our shipbuilding industry constantly in full production.

Approval should be conditional on a satisfactory scheme for writing-off and scrapping ships above a certain age or

below a certain condition, not their sale to rival countries. The authorities should be satisfied, too, that over-capitalization, such as we have experienced in the past, would not arise.

In our boom-slump-boom conditions in shipbuilding there will be very urgent need for such a plan in the near future, as we have shown earlier in this chapter.

During the period covered by the guarantee the accountants of the company receiving the guarantee could be nominated by the Government.

The writer suggests that the saving of unemployment pay to workless in the shipbuilding, steel, and other complementary trades would more than pay for any risk involved. Instead of a "trade cycle" in shipbuilding, alternatively slump and boom, we should have a stable growth, based upon considered programmes with constant statistical information as its foundation.

Would this be all? By no means. The indirect return is so great that one can quite well realize why other countries grant subsidies.

Consider the 8,000-ton ship referred to earlier on, making six journeys each way, a year, with a cargo valued at an average of £20 per ton. This is how it looks:

Cost of ship (say)	£100,000
Tonnage carried	96,000 tons a year.
Value of cargo	£1,920,000
Cost of guarantee (c. per cent) ..	£5,000 a year

The cost of building the ship would be distributed in wages.

Half the cargo would be imports to this country—and would possibly draw an average around 10 per cent duty—£96,000 a year. The other half being exports amounting to £960,000, would largely represent wages in producing the goods in this country.

Even if the complete ship was paid for by the community and given to a company to manage, it would still be a community asset. No wonder other countries give subsidies!

The development of shipping services to new ports implies a creation abroad of new roads and new railways. Since the coming of motor cars, rail transport has been the main land artery of a country, with road transport feeding the stations.

What wonderful possibilities present themselves before us when we consider this type of development—possibilities of value not to this country alone, but to the whole world.

For this reason it is preferable that such rail and road developments should, in the main, be backed by the world at large.

(ii)

Such international finance would not be impossible. It need create no jealousies or competition if based on a two-currency system.

The agreement to finance or give goods, plant, and services—to-day referred to as "loans"—implies that you agree to take in return, at a later date, goods and services to the samevalue. On this basis, agreement can be reached.

Consider the possibilities of railway development,

Through and across Africa;
Throughout China;
Palestine to Calcutta;
Australia.

Any of these areas would open up immense resources, not necessarily of the type that would pay an immediate

dividend, but nevertheless resources of mineral wealth and for the production of raw materials of great value to the world.

> With the modernizing of China, India, Africa, etc., there would be a great expansion of trade in which the whole world would benefit. . . . Were China, India, Africa to build 1,000,000 miles of railway, the greatest stimulus would be given to their and the world's trade.

If some of the credits were lost it would be in no way comparable to the haphazard "profitable company promoting schemes" of the past. Development of the kind proposed would be based on close investigation of possibilities, and the risk would be shared by a number of countries as explained in greater detail in the next chapter.

Emigration would be encouraged in this way. Millions of people would be released from low local standards of living and be drawn into progressive economic activity.

Roads would have to be built as feeders to these new railways. They would be built by local labour and by emigrants. An enormous impetus would be given to the motor trade. The standard of living would leap upwards.

Then there is the problem of the air. At the moment its potential use seems to be as the most appallingly destructive agent man has devised. Its trade and commercial possibilities have hardly been touched on. At the same time, its use for the survey of transport possibilities has not been fully appreciated.

So far we have examined the question chiefly from the viewpoint of the carriage of goods. But the carriage of people is no less important.

When you paid a fare to a foreign shipping company or railway company, that would be equivalent to an import by this country. You would pay a foreign country some of this country's External Currency which ultimately

could only be used directly or indirectly, within three years, in exchange for this country's goods or services.

The transport of people is therefore a great factor in the development of trade, a factor that would be much increased if the free movement of peoples was made easier than it is under present-day passport and customs arrangements.

To this must be added the broadening of outlook that comes with increased travel.

By international agreements to extend rail, air, and road transport throughout the world, through different national territories, such progress would lie ahead of us as the world has not so far known. What an inspiring alternative to the employment of mankind in the manufacture and perhaps the use of armaments.

(iii)

Let us look at the present state of world transport a little more closely.

The West Indies have been much in the news. The quickest route from a British port to the Barbados is by Dutch Line. The quickest route to Trinidad is also by Dutch Line. So it is to Turks and Caicos Islands and Demerara.

The following West Indian colonies have no direct passenger goods communication with the mother country:

	Population
St. Vincent	55,000
Dominica	47,000
Virgin Island	6,000
Montserrat	13,000
St. Kitts	38,000
British Honduras	55,000
Cayman Island	6,000
	220,000

At the same time, the Windward Islands, the Bahamas, Bermuda, Grenada, Antiqua, and British Guiana are much more efficiently and regularly served by steamers belonging to shipping lines operated by countries other than Great Britain.

And this situation is typical of the Colonies as a whole. Is it any wonder that it is becoming a commonplace to hear it said that the British do not know how to use their colonies?

In contrast to this, all Dutch possessions are served by fast, well-fitted, and regular services from Dutch lines.

Most people know that Jamaica is an island in the West Indies. In the minds of many of them it is a neighbour of Trinidad. And this is true. It will be a surprise to most of them, however, to learn that to travel from Jamaica to Trinidad by sea takes thirteen days—more than twice the time from Liverpool to New York. Even then it is only possible by the fortnightly service of a Norwegian shipping company. The reverse journey takes four days, still by a Norwegian line. A reasonably efficient service could cover the distance in two days.

Up to two years ago control of British trade interests came under the British Trade Commissioner at Trinidad, who could only hear the news by letter from Jamaica two weeks after it had happened!

A logical and reasonable scheme of West Indian communication would be for certain of the six- to seven-day British–U.S.A. steamers to call at Bermuda, bringing this oldest British colony within seven days of England, and the West India Islands within ten to fourteen days of England. This would only add under a day to the U.S.A. service.

A new circular service, well equipped for refrigeration, at reasonable speed from Great Britain via British Guiana,

Trinidad, Barbados, Jamaica, Honduras, the Bahamas, Bermuda, and New York would provide for passenger and goods traffic both from and to U.S.A. and Great Britain; this would be similar to the Royal Netherland's Line, whose function at the moment seems to be to watch over British as well as their own West Indian interests.

Another outstanding point about British shipping as a whole, quite apart from the West Indies, is the lack of co-ordination. Co-ordination does not call for subsidies; it costs nothing but goodwill. It may be seen in operation by the Italian lines in the Mediterranean. All Italian steamers, passengers, or goods have fixed and co-ordinated schedules for months ahead.

This co-ordination earns them a reputation for reliability, and they gain much traffic as a result. Nothing is of greater inconvenience to business men than not to know when they can ship their goods, for travellers not to know how and when they can travel. Is it this reputation for reliability that has moved the British Government to subsidize Italian ships to carry the British mails to Cyprus?

Yet British lines could be co-ordinated in the same way as Italian.

In the Dutch East Indies it is possible to know the exact day of each month and week when a boat belonging to the Dutch lines will call. No matter how small a port is, there is a Dutch service, regular and reliable. The inhabitants know about it and depend on it. Travellers and business men are certain of it. Such a service, with one central organization, covers three hundred ports with one hundred and forty steamers. This illustrates why the Dutch possessions are so intensively and efficiently developed.

The insularity of many British shipowners is of great harm to British trade interests.

If the President of the Board of Trade cared to put aside the aloofness that has become a tradition in British Ministers, and would call a friendly conference over the luncheon-table, perhaps, much co-ordination might result throughout the shipping world and those dependent on it. It is time that the President of the Board of Trade began to realize that law-making should be one of the least of his jobs. He is in an exceptional position to overcome unreasonable opposition from any quarter. It is more of this benevolent co-ordination in trade that is wanted, and much less of actual Government interference.

The present British shipping service is a scandal when it allows a steamer to call first at a Continental port to pick up cargo that competes with this country's products —and then proceed to this country and offer to take *the same type of cargo* to the same destination *but at a higher* rate than that charged to our Continental competitors.

This is not a fairy-story: it is regular practice!

Before leaving this subject one might add that in the West Indian Islands we are entirely dependent upon American air services. And in other parts of the Colonial Empire there is little British development. The West Indian mail with the new British Atlantic air service will have to go by American air line or steamer from Bermuda to New York, and then to the West Indies.

CHAPTER XVI

ECONOMIC DEVELOPMENT, COLONIES AND DISTRIBUTION

(i)

THE world is not a single economic unit, but a number of interdependent units. This must be remembered when we come to the consideration of Economic Development, Distribution, and the Colonies.

Seventy-five per cent of the inhabitants of the world are said to be living below the level considered by modern medical opinion requisite to provide adequate nourishment. They are surrounded at the same time by undeveloped abundance. The remaining 25 per cent are able and, as individuals, willing to develop that abundance to the mutual benefit of everyone. But nothing is done because of the laws of frontiers, spheres of influence, ingrained suspicions of countries, and the jealousies of politicians. Political mentality mistrusts whilst commercial mentality trusts.

Sir George Paish, in *The Way to Recovery*, suggests that if each country was assisted to develop its national resources and no hindrance was given to disposing of same, all would share in the world prosperity.

We can start off with the accepted fact that there is a potential plenty of everything. Our problem is development and distribution. At the present moment the industrialized 25 per cent produce a plenty they have, so far, been quite unable to distribute. So they are restricting their productive capacity. They are struggling to produce less because they are unable to reach consumers that

outnumber them by three to one. They are unable to see a way of letting those who want, have what others don't want. The problem of distribution is too big for them. As a result they try such remedies as these:

Burn corn in U.S.A.
Burn coffee in Brazil.
Pay U.S.A. producers not to produce.
Restrict British farmers planting potatoes.
Pray for drought to destroy the harvest.
Threaten to destroy sixty thousand tons of cocoa in Accra.

There is no thought of expanding consumption or relieving the world's starvation. All orthodox theories are in the direction of restriction.

Jeffrey Mark suggests, in *The Modern Idolatry*, that there is

> No such thing as over-production—only under-distribution. Distribution forces would be capable of physically distributing all if they were in a position of having the transaction properly "booked."

Apart from our convenient habit of blaming the Creator for all shortages and surpluses, let us examine constructive policies that have been put forward to deal with the matter.

In reply to a question in the House, Mr. Stanley Baldwin once said: "What is the use of being able to make goods if you cannot sell them?"

This is exactly the destructive line of reasoning that the world is suffering from. In so many words, the late Prime Minister agreed that it was beyond his ability to think of a way of feeding the hungry. To him the new Age of Plenty was meaningless. Until we get rid of this outlook and develop our methods of distribution, all consideration of improving production and expanding the resources of the world are of little avail. Sir Basil Blackett says in

Planned Money: "The breakdown of the existing economic system appears most obviously in the failure of its machinery of distribution."

In the days before the industrial revolution the problem was how to manufacture enough and how to grow enough to supply the market. To-day the problem is to find the market for all the things we can produce. . . . It is no longer a question of the power to produce but the power to sell. It is no longer the technique of production that is lacking but the technique of distribution.

(ii)

Perhaps the first bar to free distribution is customs duties. Trade restrictions and quotas of all kinds are a hindrance to distribution; their avowed purpose is to meet the necessity of balancing internal with external trade.

Some people imagine that it is not necessary to balance our accounts with the British Dominions and Colonies. This is quite fallacious. If they are tied to sterling, and the exchange goes against us, their pound will not be accepted at its full value because of our failure to balance our trade with them or with foreign countries.

A two-currency system would automatically balance these accounts and this chief barrier to distribution would be avoided.

As M. Van Zeeland says in his report:

> "In present circumstances, it seems the continuance of exchange control systems and clearings constitutes one of the most serious obstacles to the development of international trade."

World trade is the result of the activities of a large number of mercantile houses whose travellers visit different markets throughout the world, offering their

goods. But this type of travelling has largely ceased. What commercial house is likely to venture on so hopeless a task and so expensive a venture as sending a traveller round the world in present conditions? Delivery of their goods may not be permitted, whatever their price or quality. Quotas, licences, restrictions, etc., may prevent even the booked orders ever being delivered.

The fact that a trade agreement has been concluded with the country in question and that quotas are agreed upon does not help. Firms are not allowed to know the extent of "balance availability" of any quota. They do not know how much is still acceptable.

M. Van Zeeland was obviously ill at ease when dealing with the colonial question. But he put forward a tentative suggestion that the open-door system, as in the Congo, should be generalized and that "an agreement should be concluded between a colony and an industrial state, and colonial goods supplied should be carried to an account and paid for by the execution in return of important public works, bridges, railways, ports, etc." In other words, he suggests "balanced external exchange." Later he says:

> "There are those who see the origin of their difficulties in the unequal distribution of raw materials. In the case of colonies, properly so called, it would perhaps be opportune to generalize the system of the open door."

There are huge areas at present administered by Great Britain, U.S.A., France, Holland, Portugal, Spain, Italy, and Belgium, and most of these are capable of very great expansion and development. Other areas have populations urgently pressing to emigrate, but without the space:

> Italy and Germany, with a growing population, require outlets. France, with a diminishing population, and Great Britain,

with the birth-control complex, both with plenty of colonies, have to recognize facts as they exist, *or be condemned by posterity for future useless wars.*

As the result of pogroms, racial persecution, and altered frontiers, there are to-day millions of people without a home, urgently calling for land to develop.

The Jews, as a race, have always refused to be assimilated, and as a result of being a race apart persecution has dogged them.

They would probably, in the light of world events, be the first to recognize the desirability of some *non-contentious* area of the world being allotted to them, in which they would definitely be at peace and create for themselves a home.

There are enormous areas in the Far East full of rich possibilities for development.

And all these problems seem so obvious and easy to solve, but at the moment they are the causes for a mad rush towards war. Unless intelligent men get together very quickly to force a common-sense solution, war is inevitable. Only after much wealth and many useful lives have been destroyed will we be able to sit down and face the same problems that we could as easily face now.

Of what value would France be to Germany if the fortunes of war made her a vassal? Less trade than at present. Trade can only function to its fullest extent with a satisfied people. No new market would be developed. A happy and contented people abroad is better for world trade than a vassal state. At no time did Ireland progress before obtaining her independence. On the contrary, her population fell gradually from 9 to 4½ millions, and the poverty was indescribable. The British Dominions, after a period of help, became self-governing and progressed at

a far more rapid rate to the benefit of Great Britain, the world, and themselves.

M. Van Zeeland's suggestion should be the groundwork for any discussion of the colonial question. The possession of colonies involves more than administration. It is in the nature of a trust and implies the development of the colonial country.

This is clearly expressed in Article 22 of the Covenant of the League of Nations, subscribed to by Great Britain and the majority of the nations of the world:

> "To these Colonies and Territories—inhabited by peoples not yet able to stand by themselves . . . there should be applied the principle that the well-being and development of such peoples formed a sacred trust."

Have the "Haves" of the Colonial World really carried out Article 22 of the League Covenant? Or have they taken on too much and, in fact, retarded the world's prosperity thereby? To what extent has development taken place in British colonies? What value do we get for the half-million a year that the Department for Overseas Trade costs us?

Sir Selwyn Grier, Governor and Commander-in-Chief of the Windward Islands in 1935, said: "Communications from the Home Office poured into the small office of the Governor of the Windward Islands at the rate of 883 in 1930 to 1,900 in 1936." It costs a staff to write these notices and it costs a staff to reply—and trade goes down.

If our trade is to develop, the services of the Department will have to be reorganized, with a small department controlling each colonial area. The heads of these small departments should take it in turn to travel throughout the areas under their supervision, one always being away travelling.

And by travelling, the writer does not mean spending all their time in the atmosphere of the British clubs, great as the value of these clubs are for one side of the work. The danger is in allowing it to become the main side, because of its comfort.

These travelling departmental heads might with advantage visit the colonies of other Powers *en route*. They might both learn and teach.

The 1937 Conference of Imperial Development, convened by the Royal Empire Society, was responsible for many brilliant speeches. From *The Crucial Problem of Imperial Development* I will quote two extracts from a speech made by Sir Edward Stubbs:

"The extent to which zeal for centralization has obsessed headquarters is shown in the numerous schemes for amalgamation of services which, now that I have retired from His Majesty's service, I may be allowed to describe largely as window-dressing and eye-wash. . . . I think it is a mistake to endeavour to deal in the same manner with the primitive populations of Africa and an ancient and civilized country like Ceylon. Ceylon especially has suffered from the idea that colonies should be induced to follow the example of the other parts of the Empire, and that it can be treated in the same way as the City of London . . ."

Referring to a suggestion he had made that our officials should visit the colonies of other nations, Sir Edward says:

"The British Colonial official did not see how it was possible to learn anything from the Colonies of any other power. . . . I know the only result of the suggestion was an outburst of indignation from the Secretary of State for Foreign Affairs, but I still think the idea was a good one."

Under the present arrangements of the Department for Overseas Trade, one Imperial Trade Commissioner at Nairobi has to deal with the commercial developments of the following:

	Area in square miles	Population
Kenya	219,730	3,084,351
Uganda	80,371	3,661,099
Tanganyika	339,000	5,138,080
Zanzibar	1,020	234,621
	640,121	12,118,151

Mauritius was only visited by our Colonial Office once during sixteen years between 1909 and 1925 (Command Paper 3268).

Supposing these colonial possessions were owned by business men. Would they be content to administer them from an office stool?

We suddenly provide millions for Czechs and to assist Jewish settlement in complete contradiction to a past unemployment and niggardly usurious colonial policy. With lightning rapidity we realize colonial settlement possibilities—for others.

A hundred years ago British Guiana was exporting just about the same quantity of goods as it is to-day. A hundred years ago! It has been British since 1796. Consider this news item:

"Unemployment in the colony has brought *the old problem* of developing the hinterland again to the fore. In the Legislative Council, on June 7th, a motion by the Hon. J. Eleanor to appoint a small committee to recommend to the Government the best methods for the economic exploitation of the colony's resources was agreed to unanimously" (*W. Indies Committee Journal*, July 14, 1938. The italics are the writer's).

Look at these figures (*Whitaker*, 1938):

	Population	Exports 1936	Per head	Proportion to pre-war
		£	£ s.	per cent
Bahamas . . .	64,982	142,000	43 9	− 40
Gambia	210,060	445,000	42 6	− 50
Nyasaland	1,600,000	797,000	9 11	+ 200
Somaliland	345,383	235,000	13 9	+ 25
British Malay States . .	13,310,000	73,000,000	109 0	+ 10
North Borneo	310,000	1,200,000	77 0	equal
British Guiana	328,000	2,500,000	159 0	equal
British Honduras . .	55,000	500,000	181 0	+ 15

The only real progress has been made by Nyasaland, and here the exports per head are far lower than that of any other colony.

We can also quote the Virgin Islands. One must be careful here, for there are two groups side by side. One of them belongs to the United States, the other has been British since 1660. The U.S.A. bought theirs from the Dutch in 1917 for £5,000,000. You can go direct to the American Virgin Islands from Southampton or France, but how to get to the British group is a puzzle for the tourist agencies. In 1852 there was a regular service twice a week from Southampton (according to *St. Thomas with St. Croix and St. Johns*, by Knox, 1852).

Their comparative development is food for thought:

	Area square miles	Population	Exports 1935
British Islands . .	67	60,000	9,244
U.S. Islands	133	22,000	117,400

(*Statesman's Year Book.*)

According to the *Statesman's Year Book* (1937) the U.S. group added 268 farms of 7 acres each in 1933–6, produced 350,000 gallons of bay rum in 1936, produced

4,500 tons of sugar cane in the same year. They grow tomatoes for the New York market, and raise cattle on 80 per cent of the land.

In the U.S. group education is compulsory. Each municipality has a post office, and a cable and telephone office (*West Indian Year Book*, 1937).

For the British group, however, all banking is done through the Danish National Bank at St. Thomas (in U.S. group). There are no airways. The U.S. group, on the other hand, has an air service three times a week.

The British islands would seem to be truly virgin!

Rodriguez Island has been British since 1814. Not one schoolboy in a hundred could tell you how to get there. Not one business man in a hundred thousand has ever heard of it. British ships do not serve it; only a Dutch line calls there. It is more than doubtful if any member of the Colonial Office has ever officially visited the island.

Compare these conditions with those in the self-governing Dominions:

	Population	Exports 1936	Per head	Proportion to pre-war
		£	£ s. d.	£
Australia ..	6,620,000	117,847,000	17 13 6	+ 80,000,000
Canada	10,400,000	200,303,000	19 4 0	+ 100,000,000
New Zealand ..	1,537,000	56,538,000	36 15 0	+ 30,000,000
	18,537,000	316,688,000	20 0 0	210,000,000

If we compare the 1936 returns from our Colonial Empire of 55,000,000 people with the returns for these Dominions of 18,537,000 people, we find that the colonies export to the value of £70,000,000, or 25s. 6d. a head, and the Dominions over £300,000,000, or £20 a head. Food for thought.

It is true that there is different human material to deal

with, but this does not explain everything. It is possible to compare the British West Indies with Curaçao, which is Dutch. *Chambers's Encyclopædia* says:

"The soil of Curaçao and its dependent islands is less productive than that of other tropical lands, but careful cultivation produces sugar, tapioca, maize, figs, cocoa, coconuts, lemons and oranges."

The *Statesman's Year Book* (1937) says this about the situation:

	Area in sq. miles	Population		1934 Revenue	1934 Exports
		1917	1934		
				£	£
Dutch Curaçao ..	403	54,469	87,104	720,000	18,000,000
British Honduras ..	8,598	40,000	51,000	240,000	3,374,000

There is no direct service of British passenger cargo boats to British Honduras. Curaçao has three regular Dutch services. The position of the Virgin Islands given above is equally illustrative of the position. Oil refinery has been developed in Curaçao, and adds much to its revenue.

The development of alternative crops in our colonies is essential. This naturally calls for transport and cold-storage.

The parlous condition of many of our colonies is due to their being induced or allowed to grow one crop only—such as sugar, coffee, or cocoa.

What is the position with our other West Indian colonies or trusts?

The following from *The Round Table*, September issue, 1938, is disquieting. After referring to our present system of colonial administration as being inadequate, details of unrest during the last four years only are cited:

1934
Riots in Trinidad

1935
Riots in St. Kitts
Riots in St. Vincent
State of emergency in St. Lucia

1937
Riots in Trinidad
Riots in Barbados

1938
Riots in Jamaica

all of which, according to the writer, arose from economic causes.

Not until riots take place in Jamaica do we suddenly discover that some £500,000 is made available and a Royal Commission appointed for development. "Development" that is squeezed out of us in this way is not development in the true sense of the word. It is political expediency only.

It is eloquent of the opinion in the West Indies, and for that matter with all our colonies, to read the concluding remarks of a memorandum submitted by the West Indian Committee to the West Indian Royal Commission.

> "The West Indian Committee suggest that certain economic difficulties would be relieved if the West Indian Colonies were afforded the opportunity of examining any proposals that might affect their interests in all Payment and Trade Agreements between the United Kingdom and foreign countries. At present the Colonies, unlike the Dominions, have no bargaining power of their own."

That the suggestion come from those that really know the conditions and whose livelihood depends upon the economic success of the West Indies, should carry great weight, but as the past has evidenced, advice and action (or inaction) is preferred when it comes from theoretical economists and Civil Servants.

The Government Medical Officer of Health in his 1937 report said this about the Turks and Caicos Islands:

"The available food may be sufficient, but it is of no consequence to the labouring class who are without work for weeks and sometimes months and consequently have not the wherewithal to purchase."

In other words, there is plenty of food but the population must starve. Because we, who hold their land in trust, will not let them work, and will not find purchasers for their produce.

The same thing is true of Grenada. In a speech made in November 1937 to the Royal Empire Society, a speaker announced that there was "not enough work to go round, with the result that there is malnutrition."

To what extent have we developed the dozens of islands that we hold in the Pacific and the Indian Ocean? You can hear a lot, in and out of Parliament, as to the difficulty of getting the Dominions to accept emigrants. Why always the Dominions? Given transport and the same helping hand as is suggested for the Dominions, there are wonderful possibilities in the colonies.

If colonies have the right to expect the development of their resources, the world has a right to know whether some countries are not taking too much of the colonial world, more than they can handle, whether world prosperity is not being prevented by their dog-in-the-manger outlook.

The question is being asked, and being asked with reason, whether some colonial areas should not be held mutually by those countries that are willing and are in a position to assist in their development.

What, in fact, is being done?

In the debate on the Jamaica riots, Mr. Malcolm MacDonald admitted that things were wrong in the West

Indies. As he had only just taken office as Minister of Colonies he could hardly be blamed for this, except for the fact that he was Secretary of State for the Colonies, 1935–7. But what of his predecessors, what of those who could and should be blamed? Why were they not made to face the criticisms they deserved before their fitness for any other ministerial post was considered? There was a time when those responsible for maladministration had to face such trials as the impeachment of Warren Hastings. No commercial house would let a manager who had failed so utterly pass without blame and continue in their employ in a responsible position.

(iii)

What is to be said for and against a more equal development of the colonial countries by the industrial nations? Let us not look at it from a political viewpoint, but from a business point of view.

In every colony a very few determined, skilled, far-seeing white people, supported by a manufacturing country at home, can create wonders in the opening up of a backward country. The little colony of white people cannot function without the assistance of their industrial motherland, but the industrial motherland cannot obtain the necessary raw materials and foodstuffs without the help of the sons and grandsons in the colonial country.

The German delegates, at the close of the war, made their attitude clear on the draft conditions of peace put forward by the Allies:

"Article 119 of the Draft demands that Germany shall renounce all her rights and titles over her overseas possessions. This regulation is in irreconcilable contradiction to point 5 of the Address to Congress of January 8, 1918, in which President

Wilson promises a free, sincere, and absolutely impartial settlement of all colonial claims. The basis of every impartial settlement is that, before the decision, the parties should be heard and their claims examined. Article 119 at once rejects the German claims without even giving Germany a chance to put them forward.

"Germany's claim to her colonies is, first of all, based on the fact that she has acquired them lawfully and has developed them by means of incessant and fruitful toil and at the cost of many sacrifices. Her ownership of them has been acknowledged by all the Powers. Whenever conflicts have arisen with other Powers over particular sections of territory they have been settled by means of agreements or arbitration.

"The possession of her colonies will be even more necessary for Germany in the future than in the past since, if only on account of her low rate of exchange, she must be able to acquire from her own colonies, as far as possible, the raw materials necessary to her economic life. Her earning capacity having been reduced owing to the result of the war, she also requires the profits accruing from home production.

"Moreover, Germany needs her colonies as a market for her industries, in order that she may be able to pay for raw materials with her own manufactures and may have a field of activity for commerce. Germany is looking towards these resources to meet the liabilities imposed upon her in the peace treaty.

"Finally, Germany requires colonies in order to have territory where at least a part of her surplus population may settle, the more so as the result of the war increases the necessity for, and reduces the possibility of, emigration.

"As a great civilized nation the German people have the right and the duty to co-operate in the joint tasks which devolves upon civilized mankind of exploring the world scientifically and of educating the backward races. In this direction she has achieved great things in her colonies."

There may be outstanding reasons for opposing any German demand for colonies, whatever she may have achieved in the past. The acquisition of colonies by Nazi Germany based upon her avowed principles suggests that the colony would be closed to Jews, and the natives

themselves would come under a severely restrictive regime by which they would be treated as unfit to attain an ultimate measure of self-government.

Mr. Amery, in opposing colonial discussions with Germany, quoted figures to show that in pre-war days the emigration of Germans to their colonies was negligible. In fairness, however, Mr. Amery should have given the figures for British emigration to West Indian and certain other colonies for the same periods. In the valuable booklet, *Germany's Claim to Colonies*, issued by the Royal Institute of International Affairs (Appendix 4), the figures given do not support Mr. Amery's attitude.

The following quotations from a speech on the subject by the Duke of Devonshire, Under-Secretary for the Dominions, addressing the House of Lords on July 20, 1938, are instructive. The Duke is Chairman of the Overseas Settlement Board, set up two-and-a-half years ago to advise the Dominions Office on Empire migration.

"In 1913 there went to the Dominions from Britain 285,000 people and there came back from them 61,000.

"In 1937 there migrated 26,000—and 34,000 came back.

"The white population of the Empire is 70,000,000, of whom 49,000,000 are in the British Isles. . . .

"In many parts of the world to-day we are looked upon as 'dogs-in-the-manger,' occupying a large proportion of the earth's surface, preventing others from occupying it, and being either unable or unwilling to develop it and occupy it ourselves. . . .

"It is vital that our Empire shall be populated, if not by people of our own stock entirely, by people with the same ideals of peace and liberty as ourselves.

"Unless we can populate our Empire and make it self-supporting in the way of defence, within a measure of time some one else will populate it. . . .

"The idea that we could dump our unemployed in the Dominions and that an emigrant was another competitor for a job had done untold harm to emigration."

Support for some arrangement along the lines of an open door, suggested by M. Van Zeeland, comes from the Labour Party, M. de Rothschild, Lord Arnold, Lord Lugard, and the League Committee on Raw Materials.

Among those who agree to the principle stated in the Van Zeeland Report of equal rights for procuring raw materials are the following: Sir Samuel Hoare, Sir Arthur Salter, Earl Baldwin, Lord Plymouth, and Mr. Eden.

(iv)

Those are the views held by a number of authorities. What would be the possibilities under a principle of Separate External Currency?

In these circumstances a colony would export its surplus products in exchange for manufactured goods. As trade would be exactly balanced, the option whether she bought as much from the industrial nations as she gave in products or not, would lie with her. But to the extent she did not buy to the full amount of her exports she would, in fact, be making a present of her raw materials or foodstuffs. The question of who owned or who managed the colony would cease to be a grave one from a business point of view.

A colony would look round to find any industrial country with a large consuming population, and would sell that country as much as she possibly could. In this way she would receive large quantities of their External Currency. This currency would, of course, be limited as to date. If she did not buy goods with it, it would become useless. That currency would find its way home directly or indirectly by exchange or, at the end of three years, would no longer be valid.

The colonial country would have willing buyers. In

fact they would queue up. Each industrial country would say: "The more food and raw materials we buy from her, the more industrial goods she *must* buy from us. If she does not, she is making us a present of all the food and raw materials we are ordering." A colony would keep on buying as much as possible with the object of either using up all this dated External Currency she was receiving, or alternatively, of forcing the industrial country to keep on buying from her, if for a while, the balance went the other way.

In these conditions nothing but profit could come of a change in world arrangements around the colonial question.

Such an arrangement for managing colonies would have to be drawn up carefully by a representative international board, agreeing on such subjects as:

(*a*) The Open Door.
(*b*) Police forces only should be kept in the colony.
(*c*) No fortifications or military work should be carried out there.
(*d*) That immigration should be free or along agreed lines.
(*e*) That the Civil Service should be open to competitive examination among all co-operating nationalities.
(*f*) That certain languages should be recognized and that a certain percentage of revenue should be spent on educating the native population.

The encouragement of emigration should be a major point. The Dominions, U.S.A., and South America seem often to forget that they would hardly exist had it not been for emigration.

Such a policy would give reasonable opportunity for

the settlement of the millions who to-day find themselves without nationality and without homes.

As regards education, it would be necessary to avoid some of the mistakes that we have made in this country by giving higher education to the nationals of backward nations—which often goes to the head like wine. Education must be gradual, and is best given in local schools, colleges, and universities.

Many of those who have travelled widely know the dissatisfied and reactionary native who has returned home to his tribe after a highbrow education in this country, and who now finds his old native customs and his own land foreign to him. He is a man without a country and without roots; he becomes a reactionary of the worst type.

The actual development of these colonial countries under the system I have outlined could only be done by certain industrial nations giving credit to the colonial country. This credit would be in the External Currency of the creditor nation. They would, by this, agree that such credit would be over and above the balance arising from current trade. It would not much matter who did and who did not agree to give this credit, as those who give the credit would in fact be giving goods and agreeing to dispense with a return payment over a certain period. After that time of development, if everything turned out according to plan, they would be paid back by exports. Otherwise they would have given the goods bought with their External Currency.

The industrial country of "Ruritania" might consider seriously a railway scheme for the colony of "Anonia." The purpose of this railway might be to help "Anonia" to bring large supplies of raw material to port.

The cost of the rails, sleepers, and engines might be £100,000. Internal labour would really cost nothing to

the colony as long as there was sufficient production in the colony already to provide food and clothing for the workers while they were building the railway.

"Ruritania" would approve the scheme and put the proposal to other countries.

Great Britain might agree to invest £25,000 in the gamble. This means she would risk £25,000 worth of our materials in return for the hope of getting raw materials and produce to that value within a mutually agreed time. Under no conditions would interest be charged. If industrial countries agreed together to supply £1,000,000 where only £100,000 was wanted, they would each be given a right to put up 10 per cent of their offer.

Other undeveloped countries, as distinct from colonies, would apply a similar principle, but in these circumstances they themselves would make the proposal. China, for example, might make a proposal. She naturally would only do this if she was assured that the other countries had no territorial ambitions against her. She might put forward a scheme for opening up the interior by a new scheme of railroads. A committee of representatives from industrial countries would then tour the area and issue a report. On this report the same procedure could be followed as in the case of colonies. Probably a representative of the countries lending the money would be appointed to see the scheme through and to see that the credit was used for the purpose intended. If this representative was also a technical adviser, he would be of the very greatest value.

This type of credit is very different from the kind given to-day, and would have very different results. Such gifts from the British working people as were made under League of Nations Loans, where millions have been handed out for political purposes, would be eliminated.

Perhaps it is true that our educational system in this

country is designed with malicious cunning to prevent people from realizing the real nature of foreign loans and credits. In actual fact they are ways of pledging the mass of the people to work hard and give away the result of their work to the countries in question, less a rake-off for the financier who does the persuading.

As the new type of credit outlined above would be free of interest, one of the most serious burdens on world trade in the past would be avoided.

To-day, for instance, within the British Empire the colonies pay a tremendous percentage of their total revenue as interest on past loans: British Guiana pays 23·20 per cent of its total income; British Honduras pays 20·4 per cent of its annual income, and Jamaica 11·9 per cent (*Economic Survey of the Colonial Empire*, Colonial Number 126). This is a tremendous burden on the backs of the natives and business men of these colonies.

If we had the same freedom of movement and opportunity for trade as in pre-war days, if we had the development of transport, colonies, and other countries, as suggested here, what possibilities there would be before us!

If we had up-to-date facilities for commercial travellers on all ships, with sample rooms for displaying their goods, with low rates for travel (for they are, in fact, part-time freight travellers for the shipping companies), particularly on cargo steamers that are in port long enough for business to be transacted, if we had these things and an end to restrictions, a dispirited commercial world might take heart. We might be able to prove that common sense and not political wrangling is what makes trade and progress.

It is along these lines that a solution will be found to lie.

CHAPTER XVII

AGRICULTURE AND FISHERIES

(i)

In his report M. Van Zeeland says this about agricultural products:

> "As for agricultural quotas, they have often a special character of their own which distinguishes them from industrial quotas—the seasonable or perishable nature of agricultural products constitutes a dominating factor; at a given moment, to import unlimited quantities of, for instance, vegetables or fruits, would result in the complete ruin of a whole category of national producers—agricultural quotas can be regarded as aiming at an orderly regulation of imports throughout the year in such a way as to make competition normal."

The writer can personally realize nothing more discouraging to growers in this country than to find it impossible to sell their produce through competition with foreign supplies flooding the market at the height of the season. It is not a question of quality at all. A fruit farmer, for example, growing cherries or plums, cannot hope to make any profit, but may even have to pay out for sales and transport more in expenses than he gets in, because of the freedom of foreign cherries and plums to come on to the British market at the height of the season. When the British farmer brings his fruit to market it may be already flooded. He has then no hope of getting even a reasonable price.

The various quota arrangements and duties, varied according to season, are attempts to alleviate this situation. But the quota arrangements are not elastic enough by a

very long way, and the duty can always be defeated by determined foreign Governments allowing a subsidy to their exporters to meet it. In tackling the problem of agriculture and the produce of Nature we are on entirely different ground from industry and general manufactured goods.

There is the question of prior claim to consideration: for instance, one can do without the cinema, tobacco, jewellery, even motor cars and aeroplanes; but our existence depends upon food. For this reason any logical and co-ordinated principle of Government economy must see that food-growing is profitable to the farmer and those others who work with him.

Perishable fruits are seasonal, and the countries who wish to ship fruit to us have a different season, but one that overlaps ours. This means that shipments that clash with one another, or with our own season, result in loss. Surely it should be possible to co-ordinate supplies and get agreement between shipping countries. Could not a Food Growers' and Shippers' Council arrange for complete reciprocal freedom of imports with each country except at the height of each country's own season, when the market would be entirely closed to outside competition? Such an agreement might allow each participating country to close its market in part or wholly for a period not exceeding, say, eight to ten weeks—the time being at their option.

This would allow us to benefit by having South African cherries, for example, in May, French in June, but in July or at such time as our own fruit comes to maturity a closed market or a quota would be announced. These means would protect our growers from loss and our consumers from shortage.

Potatoes are subject to control. You are not permitted

to grow them for the market without the consent of the Potato Marketing Board. At the same time, supplies are allowed to come from abroad, even when our supplies are available. This is obviously a foolish state of affairs. A similar mutual seasonal prohibition would be much more effective and more rational. Home growing should be encouraged and profits should be assured.

The general agricultural position is a very grave question for the economic and military safety of this country. Collin Brooks writing in *Can 1931 Come Again?* says: "Agriculture is not only still neglected. It is worse for a further seven years of decline. . . . By . . . stimulating measures, British agriculture could supply foodstuffs to the value of a hundred and twenty millions a year more than are now provided by our native lands."

The Romans organized British agriculture on a sound basis, and in their days Britain was Europe's granary.

We could still grow large quantities of grain and foodstuffs, perhaps almost enough to feed ourselves. And this, despite the Prime Minister's remarks at Kettering in July 1938 and his half-hearted wriggles afterwards.

A stop can be put to the exodus from the land to the towns, and agriculture can be brought to prosperity by the adoption of a two-currency system with an independent External Currency.

The first step would be to determine a price for wheat and similar basic goods, profitable to our farmers and allowing an attractive standard of living for farm-hands.

Having determined this price, no foreign supplies should be allowed in the country below this. Such a basis would prevent foreign countries attacking the social standards we have created here and on which our cost of production depends. It is no use our expostulating that it would pay us to get supplies at cut price. Under an

External Currency system whatever we pay for goods they must buy as much goods from us. The only things we want at cut prices are things we cannot produce ourselves.

We agree, therefore, at a price of, say, 50s. a quarter for wheat. At once there will be a rush to increase the acreage. What does it matter if we give foreign suppliers 50s. or 20s.? They either spend 50s. or 20s. here. At 20s. we ruin our farmers and sell 20s. worth of our goods. At 50s. we recreate our farming industry and sell 50s. worth of goods abroad.

A principle of this kind will at once place our most neglected and most important national industry in its important and correct position of pre-eminence. Under present-day conditions the farmer has no chance of an ordered life or of being able to plan his turnover effectively.

He sows months ahead and has to take his chance whether the crop is good or bad. A manufacturer may find prices unremunerative. He can cut his losses by stopping production for a while. A farmer cannot do this. He must continue to sow and reap. A manufacturer who ceases production for a while ceases to buy raw materials, stops spending. The farmer cannot do this. If he does not sell his fat stock to-day because prices are low he must nevertheless go on feeding them. Though his arable may bring him a loss this harvest, he must nevertheless buy seed to plant for next.

He belongs to a section of producers least able to protect themselves from loss.

(ii)

Another article of food not connected with agriculture, but very important in our national diet, is fish.

Too often brave men put out to sea in the bitter cold, working all night under conditions of extreme privation and constant danger. They net a heavy catch. With years of skill to train them they pull in their nets without tearing them, they divide up their fish, and bring their catch safely to harbour.

Here they find an unorganized market unable to absorb their catch. They cannot get the price for it to cover their own miserable living standards. Often they put out to sea again and dump their catch back into the water to create an artificial scarcity so that they can get a higher price for the fish they do sell.

For each pound of herrings consumed we eat a correspondingly smaller amount of Argentine beef or Danish bacon. That is the principle on which we can work. At present the Argentine closes her ports to our manufacturers by a number of tariffs and duties. For every £3 worth of goods she sells us, she allows us to sell her only £1 worth.

While an External Currency system would prevent this state of affairs, it should never be part of our policy to import food and destroy other food produced by ourselves.

The fishing industry is rather different to other food-producing industries. At the same time it has no parallel in the manufacturing industries.

Other food-producing industries are, for the most part, long-term. The farmer sets out deliberately to produce wheat, potatoes, sheep, or pigs.

He differs from the manufacturer as once he is committed to a certain crop he cannot change. He does not know what will be the result of his work, how much profit he will make, or how much loss. He may have a small crop and make a profit or he may have a large crop and make a loss.

He can create a sales policy by co-ordination with other producers, urging the public to "eat more bacon." In that way he may alleviate a glut. But it is within limits. Modern methods of food preservation help him, and market co-ordination in advance can improve his distribution and absorb his output. But he is still in a very inelastic position.

The industrial manufacturer can take advantage of all these things, but in addition, he can dismiss his workers, go on short time, close his doors for a while, and thus stop his loss. When he does this naturally he only hands the loss on to the community, which supports his dismissed employees while he still has to face a portion of his overheads.

But the fishing fleet has none of these means at its disposal except, perhaps, the last. The boats can refuse to go out.

Otherwise they have none of the resources of either the farmer or the manufacturer. One can advertise "Eat more fish," and spend a great deal of money on it, and the boats can go out and there can be no catch. And you have then lost the money spent on advertising.

The fishing industry could, however, introduce a new technique into the industry by collaboration with the Press.

It should be possible to come to an agreement with the Press on the basis of advertising appropriation whereby a series of articles and recipes, recommendations, advertisements, health hints, and so forth could be keyed for release from time to time. A good publicity committee having prepared this material for selling fish in either large or small quantities would be in radio communication with the fleet.

As the boats turned homeward they would send out

their call: "Catch G." That might indicate a fair catch, calling for small publicity. Another call might mean a "bumper catch." At once the publicity committee would get in communication with the Press and the correct copy, already set up in type, would be rushed into the early editions of the papers, sending thousands of housewives all over the country scampering to the shops for herrings.

Additionally the co-operation of broadcasting might also be secured.

In this way a glut would not have to be thrown back into the sea and our imports of foodstuffs would be reduced by the additional amount of home produce we consumed.

CHAPTER XVIII

VESTED INTERESTS

(i)

WHEN one considers the opposition standing in the way of a frank examination of our economic system, it is difficult to decide whether vested interests or complacency are the greatest obstacle.

As we said in the first chapters of this book, the views and proposals it contains are, for the most part, not new, although their co-ordination into a skeleton scheme, made up of the outstanding points of many reformers, may not have been done before. At the same time it must be expected that these proposals will be resisted and ridiculed by many vested interests. Much good will be done if this book provokes thought on economic subjects, as thought must invariably lead to action. But we recognize that the proposals it contains cut at the roots not only of the complacency of a number of our established leaders in the economic and political world, but also of the vested interests of some of our most powerful concerns and personages.

It is to be expected that these will ridicule and resist any changes along the lines suggested. It is probable that they will do their best to ignore the criticisms and proposals this book contains, in the hope that they will escape notice and that attention will not be drawn to problems that are in large part created by them.

It is not suggested here that those who have a vested interest in the established system would not be sincere in obstructing any alteration. But their sincerity will come

from a limited horizon. It will be upon the narrow basis of their own interests, however much they may protest that this is not so. An international speculator will probably be quite capable of explaining, to his own satisfaction—and believing—that much of the good of this wonderful world is due to his activities and that any blame must be somebody else's.

To-day there are many commercial monuments that we all recognize to the memory of great financiers, some of whom ended in prison or by suicide.

Each of these men could—and many did—justify their activities to their associates. No doubt they convinced themselves also. Others carry on in exactly the same way as those in prison, but only a few are caught.

And if we consider the banks—is it possible to conceive a greater vested interest than the banks? Is it likely that any argument in favour of a departure from the present banking system—that did not promise a greater profit for the bank shareholders—would receive their approval? Is it to be expected that any such proposals as those outlined in this book would receive their moral or open support?

The banker is trained and brought up with certain axioms. His technical training is based on a certain groundwork and a certain system. It is not a technique apart from the system. Personally the writer deplores the type of book that attacks the banker instead of his system. In the haphazard and chaotic growth of our present civilization, they have managed to create a very wonderful organization. But that does not prevent our civilization being haphazard and chaotic.

In the growth of this civilization the bankers have become the masters and not the servants of the community. That is not entirely their fault, and it is impossible to

expect that the master will abdicate and put himself in the position of servant of his own free will. Who would blame him?

(ii)

In the same way one must expect erudite and sincere arguments against any proposals that would do away with the present functions of companies dealing with life insurance and annuities. Those who have interests in these concerns may be expected to believe any such proposals impossible. They will see many objections and fallacies in the arguments of this book.

And these proposals are undoubtedly impossible if we rigidly accept our present haphazard economic system. You must not expect your next-door neighbour, who may work for an insurance company, to see any good in these pages. His education and training are based on a certain organization of society. They do not fit him to see society without this organization. Timidity, fear of losing his job, these things combine to make him blind to any good points there may be in these suggestions. They will make him unwilling to consider the matter coolly and will prompt him to reject any changes at once, and without consideration.

As a matter of fact, his job will not be affected, only altered, under the scheme outlined—just as the bankers will be incorporated without any radical loss.

Very much the same thing applies to the Civil Service. The good intentions, honesty of purpose, and intellectual integrity of Civil Servants are not attacked. In these qualities they probably stand as high or higher than any similar body of men in the world.

But what greater body of vested interests can you conceive? It is a closed corporation where everything and

everyone goes to create an impression of self-importance. All the pomp and complacency imaginable in man is more or less forced on the Civil Servant.

Civil Servants pose as experts on many subjects. No doubt they are experts, some of them of a high order—in the economics of their High School, "Varsity," and Civil Service examinations. Who should doubt that they have answered many subtle and intricate questions set by wily examiners with great skill? And they are undoubtedly well read in official reports sent in by Consular Officers and such from all over the world.

But this is not enough.

In this book the accuracy of the very foundations of their cherished notions is attacked. Their very sheltered position in society is attacked.

It is accepted as a truism in the Civil Service that promotion will be delayed if you allow yourself to be in the right when your superior is in the wrong.

Their life is negative. An M.P. once said to me that the main purpose in life of some sections of the Civil Service is to explain to their superior so that he, in turn, can find reasons for the Cabinet Minister concerned why proposals made by the public or representatives cannot be put into practice.

The suggestions in this book are very far from being negative. They cut at the root of the Civil Service school of economics. They even hint that the Civil Servants' whole existence depends on the work of those who produce our bread and butter. They even suggest that these producers should be treated on a basis of equality with them.

You cannot reasonably expect a body with the traditions and training of the Civil Servant to do anything but attack a book that would alter their status, challenge their outlook, and explode their self-satisfaction.

These proposals must of necessity be ridiculed and attacked by them.

(iii)

In the list of vested interests that are challenged by this book the Stock Exchange would come high.

The proposals made would affect them profoundly. Their work would be greatly curtailed. Many of them would be forced to retire or find alternative occupation.

One must not expect, therefore, anything but determined resistance to suggestions that will, in part, challenge their existence and drive many of them from very comfortable and profitable offices.

And there will be considerable vested interest opposition from debenture holders and those who hold preference shares. This section of the community receives its present income on the principle that, whoever else may have to suffer and do without, it, at any rate, is provided for.

The proposals would put debenture and preference shareholders on a level with others. There are many in this privileged class; they may well be expected to see a score of penetrating reasons why any such measures as those proposed in this book should not be adopted.

Vested interests in land will also oppose much of the contents of this volume. They stand in the way of much effective planning, and no scheme could function evenly unless they were prevented from obstruction.

So much for the present rulers of this country, our masters. You will note that they are all non-producers.

They are all earnest and straightforward men doubtless, wholly persuaded of the terrible danger of change.

On the other hand, we come to the high finance of production, the owners of the factories, of our industry.

This book challenges their right of combination and price-fixing, where this does not reflect the lowest costs obtainable. As shown in Chapter XIV, fifty men control fifty groups with a capital of £570,000,000. They would either have to disband or register themselves as a combine, open their cost accounts to a cost accountant working on behalf of the community.

Many of these gentlemen will see danger in such measures. The inefficient will see bankruptcy, collapse, the end of profit based upon "rings" and similar arrangements; they may even scent Bolshevism. But others, however, will see salvation, especially in the proposals made to end the attack on our social scale and standard of living by fixing the price at which certain products may enter this country.

Furthermore, there is the catch-phrase politician. And there are legions of them! They read one type of newspaper only, the views of one newspaper proprietor alone. They support some particular political panacea. Nothing is right, no suggestion is any good, that does not fit in with this theory. Whether a man be an Anarchist, Tory, Communist, Liberal, Socialist, or Fascist, he is invariably burning with internal conviction that his course is for the good of all mankind.

One and all, however, seem to rule out the possibility of any of the others being able to think on any subject sanely or sincerely.

The opinions of the rank and file members of these political organizations are usually formed by their morning newspapers. They are educated by writers, skilled in the cunning use of a pen to "put across" what editors believe their readers want, or what they want their readers to think. They are like counsel paid to put their client's case convincingly. Attacks from politicians are another

vested interest, whether they come from inspired headquarters or from those who take their opinions from an equally inspired daily Press.

Even the fees that many Chambers of Commerce receive for certifying the origin of goods, as a result of the present system of exchange restrictions, quotas, etc., cannot avoid being a mental drag on their action, and must create a vested interest in the present chaos.

The object of this chapter is to give an inkling of the opposition that is to be expected to these or any other proposals, and to try to jolt readers out of taking their opinion from other people. It is to try to get them to reason matters out for themselves. It is to try to get them to remember that either they were taught nothing about economics at school or, if they were taught, it was only what they were going to do when they left school, and not why they would be doing it, or what gave rise to their doing it in that way.

Before making up your mind, be on your guard against those who try to persuade you one way or another. Consider things for yourself on their merits.

Try to get out of any narrow habit of outlook, such as reading your one daily newspaper or two daily newspapers from the same stable to find out what to think for the day.

Go out with sixpence in your pocket and buy half a dozen newspapers of all the different points of view. Read what all of them have to say on the same subjects; from the *Times*, the *Daily Mail* and the *Blackshirt*, from the *Daily Express*, the *News Chronicle*, and the *Daily Worker*. Make up your own mind which is right and which is wrong, which is reasonable and which is unreasonable, which is guarding some vested interest and which has proposals that will benefit the country as a

whole. You will probably find that there is a little in one and a little in another—the whole in none.

Try to find out what the high-flown, technical jargon of economists and politicians really means. Ask everyone you meet what it means to them. Ask everyone in the office—and offer a prize for the first correct solution. What is the meaning of "fiduciary issue," for instance? Not only would it be amusing to you to find out how few people who use it could explain it, but you will have your own mind broadened in the process.

If this chapter results in making a few people who previously took their views from one paper, one party, or one school of thought, study both sides of the question and think for themselves, it will have been well worth writing.

(iv)

So much for our proposals. So much for the opposition.

What the writer in particular wishes to bring home to the readers of this book was summed up very well by Lord Salisbury:

> "The commonest error in politics is sticking to the carcase of dead policies."

Let us lay aside our prejudices and face the facts before the coming slump develops into a crisis and submerges us all.

"Business men are only beginning to realize," says D. C. Coyle, "how deep is the conflict between their interests and finance." It is not easy for us to recognize how international financiers and speculators are able, by ignorant or selfish activity, to create a large part of the conditions from which we all suffer.

Capitalism breeds a sort of up-to-date pirate, whose

living is based on the profit arising from creating debts which posterity will be called upon to settle.

The system that makes this possible, our present-day banking and financial system, must be changed if our whole economy is to survive the test of the next few years.

We are now facing a new crisis that will be one of the supreme tests of our theories and planning abilities. On the one hand, we have the pessimists who are confident that we cannot survive, and on the other the muddlers who avoid doing anything to ensure that we shall survive. There is still a third small, but growing, class who are confident that neither the pessimists nor the muddlers are right.

The problem set by Lord Lothian in the *Contemporary Review* (September 1931) is an urgent one:

> "How far is it true that modern capitalism, because it is largely founded on usury and exploitation, contains at its heart inner contradictions which make impossible the solution of the economic and labour problems it inexorably creates for itself?"

It need not lead us to conclude, however, that both capitalism and usury are necessarily bad in themselves. But we must recognize at once that there may be basic principles crying out for change, especially in modern conditions, and we must ask ourselves how these changes can be brought about in time.

With a slump threatening us in the near future and the danger of war on everyone's lips, the answer to this problem is an urgent one. In this book the writer has tried to show that the key lies in a change in our currency system.

If there is no general agreement between experts there is unanimity that it is our financial organization that is basically wrong. Mr. Neville Chamberlain himself spoke

of the "present chaos" at the World Economic Conference on July 10, 1933, and suggested that it might be cured by currency stabilization. Chris Hollis goes so far as to announce: "Unless we smash the system it will smash us!"

R. G. Hawtrey writes: "It is disastrous to let monetary policy drift," and Irving Fisher writes about American problems:

"Many doubtful pieces of legislation have been hastily pushed through Congress because the public, not being able to distinguish properly what is monetary and what is not monetary, ascribed wrong causes to their current troubles. They see the effects of a broken-down monetary system but do not trace them to their source. They find unsold goods and think this must be due to 'over-production.' So thay fear 'tinkering with the currency' and tinker, instead, with everything else."

Writing in the *Manchester Guardian* in 1930, Lord D'Abernon said:

"Until attention is concentrated on currency and credit, there will be no lasting general remedy. Discussion of minor points may safely be postponed until a solution has been found for the major cause of our distress."

But if these critics and a host of responsible observers are unanimous that there is something basically wrong with our currency system, there is, on the other hand, grave complacency on the part of those in positions of trust, and those who run our system to-day.

"The ignorance of such experts in 1931 was atstounding. Active as I was at that time in financial circles, I did not hear discussed by bankers and officials, even when the crisis was upon us, that Britain must be off the Gold Standard in a very short time . . . in 1931, a National Government was returned to power pledged to keep the country on gold and thus to save the pound" (COLLIN BROOKS).

Another crisis like the last may well be final for civilization as we know it. Capitalism may be said to stand on trial and either it must overcome this economic cataclysm by reorganizing itself or it will crash.

Capitalism has grown and developed. It is not one system but a series of systems that have grown out of each other, as period succeeded period. Up to 1870 it was dynamic, rapidly expanding and growing. It was the time that our history books describe as the Industrial Revolution. Things were changing rapidly and visibly; new factories were springing up. Roads, railways, canals—all these things were coming into being.

Then during the years between the 'seventies and the 'eighties, progress slowed up and capitalism became static. From the 'eighties onwards it has been largely decadent.

Capitalism has changed the face of the world. It has built such a civilization as no writer of antiquity ever imagined. It has brought the whole world into one, at least as far as communication is concerned, though it has made us politically more apart, perhaps, than ever.

Are we going to allow the petty rivalries of politicians, the bogey of national boundaries, the vested interests and fog or jargon that conceal and protect these interests to thwart us? Are we going to stand by complacent while our economic order, the system that has done so much for the world and for civilization, goes to pieces?

It is because the writer does not believe we are willing to do this that he has written this book. He believes we have among us men willing to face facts and to grapple with them.

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